



Annual Report

2011-12



BRITISH COLUMBIA
SECURITIES COMMISSION





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Our People

The success of the British Columbia Securities Commission depends on the skill of our professional staff to identify and resolve regulatory problems in the complex and fast-paced capital markets. The required expertise is constantly changing to meet the needs of a changing market. We work hard to attract and retain the specialized securities market expertise we need to fulfill our mandate.

BCSC staff are actively engaged in their communities. Our employees give their time to not-for-profit organizations outside of work, and many of them volunteer in our Staff Ambassador program, delivering investor and industry education seminars throughout the province.

Every year, BCSC staff go beyond the call of duty to respond to the challenges posed by complex and dynamic securities markets. This report details their achievements and dedication to making the BCSC a leading securities regulator in Canada.

Message from the Chair

Brenda M. Leong



25TH YEAR ANNIVERSARY

I am pleased to present the Annual Report for the 25th anniversary of the BC Securities Commission for the year ended March 31, 2012. In March 1907, a private member introduced a bill to incorporate the Vancouver Stock Exchange. Thus began the long journey to create a securities commission in this province.

The government created the BC Securities Commission on February 1, 1987, when it decided to reorganize the Office of the Superintendent of Brokers to create an independent securities commission, making the BCSC solely responsible for the regulation of trading in securities and commodity contracts.

PROPOSED NATIONAL REGULATOR

In December 2011, the Supreme Court of Canada concluded that the federal government's draft securities act to create a national securities regulator was unconstitutional, infringing on provincial jurisdiction. The federal government is now working on a cooperative model, with the aim of reaching agreements with willing provinces and territories by the end of the year. Our government

supports the concept of a national regulator, provided it respects constitutional jurisdiction, improves enforcement, and responds to regional economies such as BC's venture capital markets.

While awaiting the decision of the Supreme Court of Canada, we remained committed to our priorities and delivered on our mandate to protect investors and foster fair and efficient markets. We worked diligently to meet our Service Plan commitments. We met or exceeded all of our performance measurement targets, except for three (measurements 1.2, 1.3 and 3.3). This year we focused on three risks: illegal distributions and securities fraud; non-compliance in the private placement market; and the challenges of investigating market misconduct by traders in offshore secrecy jurisdictions.

EVOLVING MARKET STRUCTURE

Derivatives

The BCSC is involved in initiatives to reform the regulation of global derivative markets. These reforms are aimed at global systemic risk management and the efficiency of global derivatives markets.

Central to the work is the introduction of legislative amendments and regulations to implement Canada's G20 commitment to regulate the over-the-counter (OTC) derivatives market. Staff are participating with the Canadian Securities Administrators (CSA) on national and international working groups that are establishing global frameworks for derivatives trading, including trade clearing, trade reporting, the regulation of derivatives trading facilities and derivative market participants, and the imposition of capital and collateral requirements.

Credit Rating Agencies and Canadian Public Accountability Board

BCSC worked with the CSA to finalize a national instrument that requires credit rating organizations to apply for designation and for Designated Rating Organizations to ensure compliance with each provision of the *IOSCO Code of Conduct Fundamentals for Credit Rating Agencies*. Taking this approach is consistent with developing international standards. This rule came into effect shortly after the end of the fiscal year.

In August 2011, the BCSC recognized the Canadian Public Accountability Board (CPAB) as the self-regulatory organization that oversees auditors of Canadian public companies.

The Maple Group and Alpha Exchange

In spring 2011, the Maple Group Acquisition Corporation (Maple) made a \$3.8 billion offer to acquire the TMX Group Inc. (TMX), the owner of the Toronto Stock Exchange (TSX) and the TSX Venture Exchange (TSX-V). As part of that transaction, Maple plans to acquire the Alpha Exchange, the TMX's competitor for equity trading. This year we approved the operation of the Alpha Exchange in BC. Maple also intends to acquire CDS Clearing and Depository Services Inc., Canada's clearing and settlement facility for equity traders. Maple's 13 owners are all large Canadian financial institutions, based in Ontario, Quebec and Alberta.

Maple must receive approval from the four major securities regulators in Canada (Quebec, Ontario, Alberta and BC) and the federal Competition Bureau. In our role as co-regulator of the TSX-V with the Alberta Securities Commission (ASC), the BCSC published a draft recognition order for public comment outlining conditions for approval. In the same month, the Ontario Securities Commission (OSC) also published recognition orders

with terms and conditions for public comment and the Autorité des marchés financiers announced that it intends to approve the acquisition with specific conditions for approval. In late April, Maple issued a statement saying that the Competition Bureau indicated that, "it is possible" the conditions drafted by the OSC will be enough that "the Bureau's serious concerns may be substantially mitigated".

On May 31, 2012, Maple extended its offer to July 31, 2012.

IMPORTANCE OF VENTURE MARKET

The public venture market continues to play a very important role in BC's economy. In 2011, BC companies listed on the TSX-V raised almost about \$3.75 billion, primarily for mining exploration and development. About 1,200 companies trading on the TSX-V are headquartered in BC—over half of all companies listed on the exchange.

This confirms that BC is the undisputed world leader when it comes to financing for junior mining companies. No other jurisdiction comes close to matching the funds raised annually through BC's markets for mining, and exploration and development.

We play a significant role in regulating this market. Our goal is to provide a regulatory regime that supports a cost effective, innovative, and reputable market for early-stage companies. These are the guiding principles that underlie the conditions we propose to impose on the Maple acquisition to manage the risks of the transaction to the public venture markets.

THE PRIVATE PLACEMENT (EXEMPT) MARKET

British Columbia businesses raise billions of dollars each year through the private placement market. Most is raised by public companies. However, it is also an important source of financing for private companies that are venture start-up businesses.

Message from the Chair

Continued

Although these businesses represent a small part of the private placement market, they pose the highest risk for investors. They have limited disclosure obligations, investors cannot easily sell their securities and they are susceptible to failing. A key challenge for the BCSC is how to protect investors who choose to invest in these start-up businesses.

Most recently, the BCSC amended its rules to require all persons who have been registrants in the past or have previously provided investors with financial services to register with the BCSC to sell private placement securities. In doing so, they are required to comply with rules designed to protect investors.

We also amended the rules requiring issuers to provide more disclosure about sales of private placement securities to investors and the BCSC. This helps investors scrutinize these investments and assists the BCSC to monitor compliance with the rules.

In fall 2011, the BC government amended the *Securities Act* to give the BCSC greater compliance and enforcement powers to better manage the risks in the private placement market. These included the power to require companies selling in this market to keep records, to order companies to produce documents, and to allow BCSC staff to conduct compliance reviews.

We also established a compliance team to monitor this market more closely, and are reviewing all registration applications from those who want to sell in this market.

INVESTOR PROTECTION

Enforcement Activity

In what has been a busy year, enforcement staff handled 163 cases, which included five concluded cases relating to insider-trading. They issued over 300 production orders, 14 freeze orders, froze over \$15 million in assets, and returned \$1.35 million in assets to investors.

Of note was the swift and decisive action taken by staff respecting an alleged \$83 million Ponzi scheme. Within 60 days of receiving a tip, we had frozen assets, issued an Investor Alert, interviewed victims, settled with Arvin Patel, and issued a notice of hearing against Rashida Samji, alleging that she and the two companies she controlled committed fraud involving 218 investors.

Our criminal investigation team continues to work productively with front-line police and Crown Counsel to prosecute aggressively those who breach securities laws. Crown Counsel laid 193 *Securities Act* charges and 58 *Criminal Code* charges based on BCSC referrals.

Investor Education Activity

We committed to a three-year *Be Fraud Aware* campaign to educate British Columbians on the warning signs of investment fraud. In its first year, aided recall of the campaign was 32% amongst BC's general population, 42% within BC's Chinese-speaking population, and 62% within BC's Punjabi-speaking population. All audiences are becoming more aware of the warning signs of fraud with a majority of respondents agreeing they need to do their research before investing. Visits to our consumer website, *InvestRight.org*, grew 30% last year.

FINANCIAL PICTURE AT YEAR-END

We fund our operations entirely from fees charged to securities market participants. Our fee model generates revenue that grows generally with the long-term growth in the market, providing the resources to regulate increased market activity. Fee revenue fluctuates with market movements so we have also set aside a fee stabilization reserve, equal to about five months of expenses, to provide a cushion to allow us to maintain regulatory operations without raising fees during any protracted period of weakness.

During fiscal 2012, we generated a \$0.6 million surplus, \$0.3 million higher than planned. Revenue increased 6%, more than expected, due to increased securities distribution activity, higher registration volumes, and higher investment income. Expenses also increased significantly, to \$36.2 million due to additional compliance and enforcement staff and developing new tools, including four automated risk models and an enforcement case-management system. We also significantly expanded our investor education activities, including running the *Be Fraud Aware* media campaign.

RECOGNIZING STAFF AND COMMISSIONERS

I would like to acknowledge our staff for their hard work, dedication, and valuable contributions to securities regulation. I am honoured to lead an organization where so many talented people take pride in carrying out our mandate to protect the public and foster fair and efficient capital markets. We accomplished some important initiatives this year and I look forward to tackling the challenges ahead with our dedicated team.

Finally, I would like to express my appreciation to the BCSC commissioners for their continuing support and sage advice over the course of the year.

STATEMENT OF ACCOUNTABILITY

The 2011/12 BCSC Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of the BCSC for the 12 months ended March 31, 2012 in relation to the Service Plan published in February 2011.

I am responsible for ensuring internal controls are in place to ensure information is measured and reported accurately and in a timely fashion. The measures presented are consistent with the BCSC's mandate, goals and strategies, and focus on aspects critical to the organization's performance.

The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, strategies, measures, or targets made since the 2011/12 – 2013/14 Service Plan was released, and any significant limitations in the reliability of data, are identified in this Annual Report. In preparing this report, we have considered all significant assumptions, policy decisions, events, and identified risks, as of June 7, 2012.



BRENDA M. LEONG,
Chair and Chief Executive Officer

Organizational Overview

BCSC VISION

To play a leading role in securities regulation that inspires investor confidence and supports fair, efficient, and innovative Canadian capital markets.



MISSION

The BCSC is the independent provincial government agency responsible for regulating capital markets in British Columbia through the administration of the Securities Act. Our mission is to protect and promote the public interest by fostering

- *a securities market that is fair and warrants public confidence*
- *a dynamic and competitive securities industry that provides investment opportunities and access to capital*



VALUES

Our values of integrity, accountability, and service guide our commitment to appropriate, effective, and flexible regulation. This commitment allows us to keep pace with quickly evolving capital market changes.

OVERALL BENEFIT

The Commission benefits the public by protecting investors and the integrity of BC's capital markets. We

- review the disclosure that businesses raising capital must provide to investors
- review applications for registration from those that trade securities, provide advice, or manage portfolios or investment funds to ensure they are qualified, ethical, and solvent
- take action against those who contravene securities laws
- educate investors to protect themselves and industry participants to understand how to comply with securities law requirements

ENABLING LEGISLATION

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

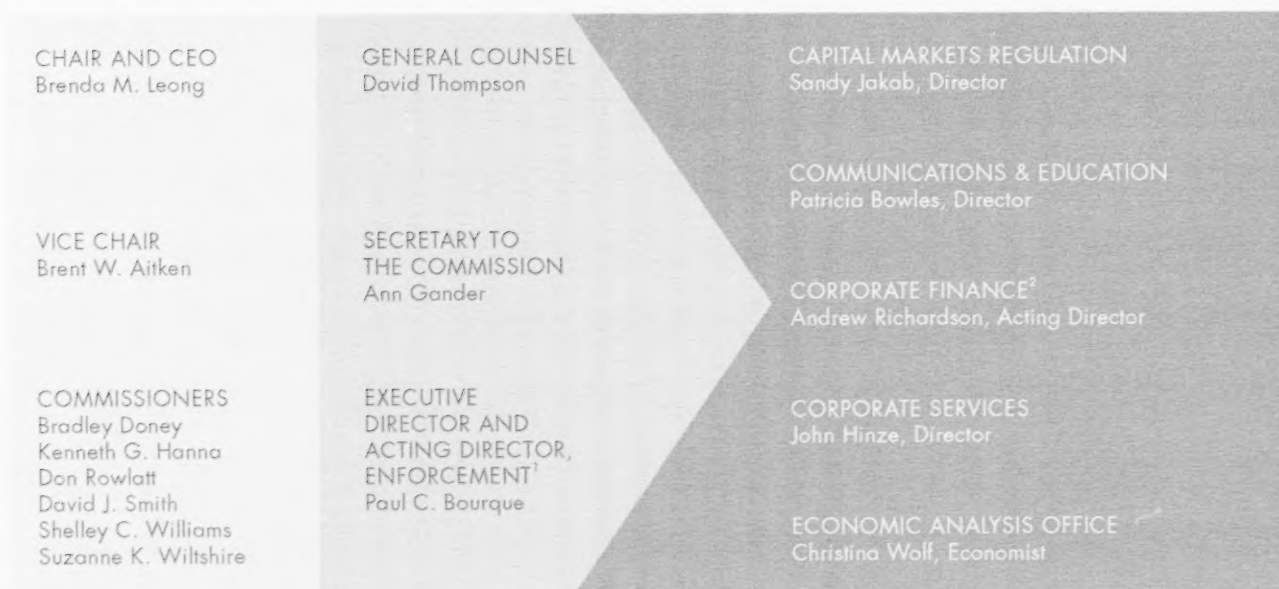
We are accountable to the provincial legislature and the public through the Minister of Finance, to whom we submit this Annual Report and audited financial statements. We submit our three-year Service Plan to the provincial Ministry of Finance and Treasury Board as required by the *Securities Act* and the *Budget Transparency and Accountability Act*.

GOVERNMENT'S LETTER OF EXPECTATIONS

The provincial government sets out the following specific expectations of the BCSC in the Government's Letter of Expectations. Our progress in meeting those expectations is noted below.

EXPECTATIONS	PROGRESS
Assist the provincial government with the federal government's development of a national securities regulatory framework (National Regulator Initiative) for consideration by governments.	The BCSC provided advice and expertise to the provincial government, and seconded senior counsel to the Canadian Securities Regulatory Regime Transition Office to work on regulations for the proposed Canadian <i>Securities Act</i> .
Work with other provinces and territories to strengthen investor protection and the Canadian regulatory framework.	The BCSC worked cooperatively with the CSA on various regulatory initiatives, including those related to Canada's G20 commitments. (Refer to Chair's Message)
Make best efforts to streamline, simplify, and harmonize securities laws with other provinces and territories.	The BCSC is actively participating in the national initiative to develop a harmonized framework to regulate OTC derivatives. (Refer to Chair's Message) The BCSC continues to co-lead a project with the ASC to develop and implement a regime of regulations tailored to the venture market. During the year, we published proposed rules for comment. (Refer to Strategy 4.1)
Comply with Government's requirements to be carbon neutral under <i>Greenhouse Gas Reduction Targets Act</i> .	BCSC met the requirement to be carbon neutral by 2010 and remained carbon neutral in fiscal 2011.

Current Organizational Structure



1. Previous Director of Enforcement, Long Evans, took on a new role at the BCSC after year end.

2. Previous Director of Corporate Finance, Martin Eady, left the BCSC on March 26, 2012.

GOVERNANCE

The BCSC is governed by a board of up to 11 (currently eight) commissioners appointed under the *Securities Act*. The commissioners have four categories of responsibilities. They

- review and approve the development and implementation of securities legislation, regulations, rules, policies, and guidance
- oversee the self-regulatory organizations (SROs), exchanges, and other marketplaces

- act as adjudicators on enforcement matters brought under the *Securities Act* and applications for review of decisions made by SROs and exchanges
- act as the BCSC's board of directors, overseeing the BCSC's management, operations, and financial affairs

Board committees

Independent commissioners are also members of one or more of three board committees described in the table below:

COMMITTEE	MEMBERS	ROLE
Audit	David J. Smith, Chair Suzanne K. Wiltshire Shelley C. Williams	The Audit Committee assists the board in • ensuring the integrity of the BCSC's financial management and reporting systems • ensuring the effectiveness of the BCSC's internal controls • ensuring the independence of the BCSC's internal and external auditors • monitoring risk management policies and systems • such other related initiatives as may be necessary or desirable to enhance board effectiveness
Human Resources	Don Rowlatt, Chair Bradley Doney Shelley C. Williams	The Human Resources committee assists the board in • ensuring the BCSC has an effective organizational structure and competitive human resources and compensation policies and practices • ensuring appropriate processes are in place for the selection, evaluation, compensation, and succession of senior management • evaluating and determining compensation for the Chair • such other related initiatives as may be necessary or desirable to enhance board performance
Governance	Kenneth G. Hanna, Chair Don Rowlatt David J. Smith	The Governance Committee assists the board in • ensuring the BCSC has policies and practices for good governance and ethical conduct • ensuring the board and its committees function independently • evaluating board performance • selecting and evaluating commissioners and planning for their succession • such other related initiatives as may be necessary or desirable to enhance board performance

Governance principles

Recruitment—The provincial government appoints the commissioners for a term of office specified under the *Administrative Tribunals Act*. Every commissioner has skills and experience in business, capital markets, law, or regulation; a reputation for honesty, integrity, and dependability; and an appropriate level of knowledge of securities law and industry practice to fulfill the role as a member of an expert tribunal.

Orientation—The board has a comprehensive orientation program for new commissioners. The orientation program familiarizes new commissioners with the mandate and operations of the BCSC, the role of the board and its committees, and the relationship and division of responsibilities between the board and government.

Continuous governance improvements—The Governance Committee and the Human Resources Committee develop, recommend to the board, and oversee processes for the annual evaluation of the board, its committees, the commissioners, and the Chair.

Independence—An independent commissioner must have no direct or indirect association with the commission that, in the view of the board, could be reasonably expected to interfere with the exercise of the commissioner's independent judgment. Every commissioner must develop and maintain an independent perspective, and must discharge quasi-judicial responsibilities fairly, expeditiously, and in the public interest.

Governance best practices disclosure

Except where noted in the BCSC's governance policy, the board's governance practices meet the government's *Best Practice Guidelines—BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations* (2005, The Board Resourcing and Development Office of the Premier).

The governance policy requires that we disclose the following information about the BCSC in the annual report:

Waivers—the BCSC has an ethics and conduct policy. The board granted no waivers from that policy during the year.

Commissioner compensation and attendance records—see page 38 in the Financial Report for the attendance records and compensation of each commissioner.

Compensation consultants—see page 38 in the Financial Report for information on the consultants retained this year.

Compliance with governance policy and procedures—there were no material deviations from the governance policy this year.

Our governance policy is on the BCSC website at www.bcsbc.ca (*About the Commission: Governance: Governance Policy*). A biography of each commissioner is available on the BCSC website (*About the Commission: Governance*).

KEY STAKEHOLDERS

- **The public**—which relies on us to foster capital markets that contribute to the well being of BC
- **Investors**—who seek to invest in fair and efficient securities markets
- **Issuers**—companies that rely on the capital markets to fund growth

- **Securities firms**—which advise investors and companies, and facilitate trades
- **Other regulators**—with which we enforce compliance, and develop and implement policy initiatives through the CSA
- **The provincial government**—to which we are accountable

THE SECURITIES REGULATION LANDSCAPE

We fulfill our statutory mandate to regulate BC capital markets in cooperation with other CSA jurisdictions. Regulating BC capital markets in the context of a national system significantly affects how we conduct our work. It also influences how we consider and implement securities policy and practice in BC.

We work within a regulatory passport system, through which a market participant has access to markets in all passport jurisdictions by dealing only with its principal regulator and complying with one set of harmonized laws. All Canadian jurisdictions, except Ontario, participate in the passport system. While Ontario-based market participants benefit from the passport system, market participants based outside of Ontario need to deal with both their principal regulator and the OSC.

We rely on two SROs to perform key regulatory functions related to dealers, salespersons, and trading activity in Canadian securities and exchange contract markets:

- **Investment Industry Regulatory Organization of Canada (IIROC)**, which regulates investment dealers and trading activity on Canadian marketplaces, including TSX, TSX-V, and alternative trading systems
- **Mutual Fund Dealers Association (MFDA)**, which regulates mutual fund dealers

The BCSC leads regulatory oversight for the MFDA on behalf of CSA, subject to input from the other CSA jurisdictions. The OSC performs the same role for IIROC.

The BCSC has recognized the TSX-V under the *Securities Act* and shares responsibility with the ASC for its oversight. The BCSC has exempted the TSX, the Alpha Exchange, and the Canadian National Stock Exchange from recognition, and we rely on the OSC's oversight of these exchanges.

The BCSC has also recognized the CPAB, which oversees auditors who audit public companies in Canada.

CORPORATE FINANCE AND CAPITAL MARKETS STATISTICS¹

FISCAL YEAR	2008	2009	2010	2011	2012
Registrants ²	30,365	30,344	31,553	32,979	32,407
New firm registrations	4	7	5	15 ³	14
New individual registrations	5,514	5,483	3,311	3,673	3,971
Dealer firm examinations	3	6	4	0	3
Adviser firm examinations	17	14	14	34 ⁴	28
Active public companies	6,505	6,960	7,212	7,213	7,621
Mutual fund prospectus filings	2,655	2,906	2,832	3,063	3,150
Prospectus filings (non-mutual fund)	878	515	828	1,045	1,084
Initial public offerings receipted ⁵	409	214	184	308	326
Continuous disclosure reviews	168	279	341	298	325
Annual information forms (AIFs)	1,979	1,416	1,374	1,838 ⁶	1,907
Cease trading orders (public companies)	230	361	437	334	296
Exemption applications ⁷	N/A	N/A	N/A	N/A	112 ⁸

1. Due to market conditions, overall activity was generally down in a number of areas in fiscal 2009 and fiscal 2010. For individual registration applications, the decline occurred in fiscal 2010 instead of in fiscal 2009. In most areas, excluding applications for individual registration, activity went back to prior levels in fiscal 2011.

2. Registration figures are drawn from the National Registration Database (NRD).

3. The increase in firm applications in fiscal 2011 is the result of the new registration requirements for investment fund managers and exempt market dealers. These changes came into effect in September 2010.

4. The increase in adviser firm examinations in fiscal 2011 is due to a change in approach. In fiscal 2011, we moved to a risk-based approach and performed a variety of different types of reviews. This allowed us to review 89% more firms in fiscal 2011 than in fiscal 2010.

5. Initial public offerings (IPOs) are a subset of all prospectus filings.

6. The increase in AIFs in fiscal 2011 is related to the number of venture companies voluntarily filing AIFs to access the short form system as market conditions improved.

7. We revised the measurement in fiscal 2012. Therefore, we have not included measurements for prior years, because they are not comparable.

8. In fiscal 2011 and previously, all applications we received were included in this measure, even if we were not the principal regulator. The benefit of measuring routine applications, where we are not the principal regulator did not justify the time required. As a result, starting in fiscal 2012, we are no longer counting these routine applications.

CORE BUSINESS AREAS

Compliance

We screen securities firms and their salespersons for registration (except IIROC firms and their salespersons who register with IIROC) and refuse applications from unsuitable candidates. We also regulate companies and insiders.

We audit these securities firms on an on-going basis for compliance with the rules. Better investor protection results when securities firms and salespersons understand and comply with the rules. We achieve this by, in part, ensuring these organizations have effective compliance systems and controls in place.

In fiscal 2012, BCSC staff held three outreach workshops, reaching over 300 individuals in our directly regulated community in person, or by webcast. These sessions focused on common compliance deficiencies, compliance best practices, NI 31-103 first year amendments, prospectus exemptions, and managing business and operational risks.

We rely on the SROs to regulate their member firms. We oversee the SROs and directly regulate firms not members of an SRO.

We review prospectus filings that companies make when they go public or when they are already public. The prospectus is the key disclosure document used by companies to raise money from the public. We also monitor continuous disclosure documents by public companies to detect cases where they are not providing adequate disclosure. Investors are better able to make informed investment decisions when they have access to adequate periodic and timely disclosure. As part of our prospectus and continuous disclosure review programs, we review mining technical disclosure of public companies. On request, we perform a pre-filing technical review for companies contemplating filing a short form prospectus, which has shorter review times.

We monitor daily filings by companies in the private placement market to gather information on these companies and identify those with higher risk. This allows us to focus our resources on the higher-risk companies.

In fiscal 2012, BCSC staff sent 35 formal requests for information to companies in the private placement market whose distribution reports had attributes of high-risk.

We also monitor daily trading of OTC companies that file with the BCSC. We flag unusual trading activity and request further information.

Enforcement

Effective enforcement requires decisive action against misconduct. Decisive action depends on timely detection, thorough investigation, and vigorous prosecution of alleged misconduct. We resolve cases through settlements and by administrative proceedings and criminal prosecutions.

Our Enforcement division focuses on

- illegal distributions (including misrepresentations and fraud)
- market misconduct (including market manipulation and insider trading)
- misconduct and non-compliance by regulated market participants that have a strong BC connection
- theft and fraud under the *Criminal Code*, as it relates to securities transactions

When cases with national implications emerge involving a BC-based market participant, we usually take the enforcement lead. SROs generally deal directly with cases involving SRO member misconduct.

The Criminal Investigation Team referred nine cases to Crown Counsel this year. Crown Counsel laid 58 charges under the Criminal Code and 193 charges under the Securities Act against 11 individuals. This fiscal year, five individuals were convicted, based on BCSC referrals over the past three years. Sentences varied, including a five-month jail term and \$40,000 restitution.

In Canada, we cooperate and coordinate with other Canadian regulators, exchanging information formally and informally on a near-daily basis to the full extent that the laws in each jurisdiction allow. Reciprocal orders, in which we uphold enforcement actions from another jurisdiction, are integral to strengthening investor protection in BC and Canada.

This year, we issued 17 reciprocal enforcement orders, based on sanctions of other securities regulators from across Canada and from foreign countries, as well as criminal sanctions from the courts.

We regularly cooperate and coordinate with US federal and state regulators, as well as other foreign regulators in enforcement matters.

We are active in the following international regulatory organizations:

- *International Organization of Securities Commissions (IOSCO)*—the international authority for global cooperation on regulatory standards, surveillance, enforcement, and information exchange among securities regulators
- *North American Securities Administrators Association*—an organization of Canadian provincial, US state, and Mexican federal securities regulators
- *Council of Securities Regulators of the Americas*—a forum for mutual cooperation and communication among securities regulators in North, South, and Central America, and the Caribbean

In addition, we have formal bilateral memoranda of understanding (MOUs) with foreign regulators, and a multilateral MOU with other IOSCO members. These establish processes and expectations for regulators assisting each other in gathering information for regulatory oversight and investigations.

The Enforcement Report, which begins on page 58, provides a detailed summary of our enforcement activity and initiatives in fiscal 2012.

Investor Education

Our goal is to educate investors so they can make informed investment decisions and protect themselves from fraudulent investment schemes. We want investors to take responsibility for their financial health—critically assessing potential investments and advisers before they invest. Research shows that many investors lack the knowledge and understanding they need to make sound investment decisions. For this reason, our Communications & Education division develops targeted programs for various groups from high school students to seniors.

Teaching financial life skills and raising awareness about their importance is a priority for the BCSC. Financial life skills are the ability to manage money with knowledge and confidence throughout one's life. We give presentations and workshops to teachers and student teachers to help them deliver the finances portion of *Planning 10*, a required course for Grade 10 students in BC.

In the past year, BCSC staff trained over 2,000 student teachers and over 400 teachers to teach financial life skills to BC high school students.

Our adult education programs target seniors and pre-retirees—two groups we know to be particularly vulnerable to investment fraud. When they fall victim to a fraud, the financial impact can be life-altering because they have less time to recover from financial losses than younger investors do. Through our consumer website, *InvestRight.org*, we offer tools and information to help investors avoid and report investment fraud, and to help them understand risk and the basics of making informed investment choices. In addition, BCSC staff conducts province-wide outreach seminars to engage ethnic communities and seniors groups.

In fiscal 2012, BCSC staff presented 62 InvestRight seminars to 2,857 people in communities across the province.

POLICY-MAKING

We have the authority under the Securities Act to make rules. We also issue guidance to help market participants understand these rules. We use policy-making as a tool when regulatory intervention into the market is justified and other tools are not sufficient to address the reason for the intervention.

In June 2011, all CSA jurisdictions adopted a substantially revised mining rule. BCSC staff led the national initiative to develop the rule. It reflects the results of industry consultation and ten years of experience with the original mining rule. The revised rule maintains world-class standards and continues to meet the changing disclosure needs of the mining industry.

BCSC OPERATING ENVIRONMENT AND CAPACITY

Capital markets are complex and fast-moving. To regulate capital markets effectively, we acquire, understand, and act on information from a wide variety of sources. We manage our operations to ensure we have the appropriate resources to meet our commitments. We focus our efforts using a risk-based approach, paying more attention to high-risk individuals, firms, and companies. We allocate resources and manage operations through

- strategic planning and comprehensive risk management
- a rigorous annual budgeting process and monthly budget variance reporting
- strong project initiation and purchasing controls
- succession planning and recruiting to maintain key competencies
- ongoing professional development to meet evolving market developments

We allocated resources to two national initiatives last year and will continue to do so over the coming year:

- The CSA initiative for rebidding the CSA IT systems operator and technology systems enhancement. This initiative involves the redevelopment and replacement of several national electronic filing systems. While the project scope and timing remain uncertain, the BCSC's participation in this initiative will require a significant commitment of its resources.
- The CSA initiative to regulate derivatives required by Canada's G20 financial regulatory commitments.

This year, the BCSC committed significant additional resources to three areas necessary to enhance our regulatory capabilities and will continue to do so over the coming year:

- Expansion of private placement market intelligence
- Enhancement of risk-based approaches to our regulatory operations
- Extension of our IT capabilities

FUNDING

We have not increased fee rates in more than 17 years.

Revenue increases reflect market activity. Expenses increased at an average annual rate of 3.7% for the 10 years ended March 31, 2012.

(millions) FISCAL YEAR	2009 ACTUAL	2010 ACTUAL	2011 ACTUAL	2012 ACTUAL	2013 BUDGET
Revenues	\$32.1	\$31.4	\$34.9	\$36.9	\$39.3
Expenses ¹	\$30.4	\$30.8	\$31.2	\$36.2	\$38.7
Surplus	\$1.6	\$0.6	\$3.7	\$0.6	\$0.6
Capital additions	\$0.7	\$0.3	\$0.6	\$2.2	\$3.9

1. This is our first report following our transition to public sector accounting standards. The transition resulted in the reclassification of previously designated accumulated surpluses including our education reserve. Education program spending is now an operating expense. This related prior year expense is reflected in the change.

Expenses increased 16% in fiscal 2012. Salaries, benefits, and occupancy costs account for about 80% of expenses. We increased expenses to expand organizational capacity and advance several key initiatives, and the board then approved additional spending in the third and fourth quarters to expedite progress on those projects.

We are financially sound, ending the year with an accumulated surplus, and expect to break even over the coming years, even as we continue to expand our capacity and education programs, and invest in our infrastructure to keep pace with financial industry and regulatory developments.

Report on Performance

This section describes each goal, the strategies supporting it, and the measurable progress we made during fiscal 2012 towards achieving the goals. We also identified three risks in our 2011 Service Plan that present a threat to our mission. Some of the strategies were a direct response to those risks.



Our mission is to protect and promote the public interest by fostering

- *a securities market that is fair and warrants public confidence*
- *a dynamic and competitive securities industry that provides investment opportunities and access to capital*

Goal 1

Promote a culture of compliance

Goal 2

Act decisively against misconduct

Goal 3

Educate Investors

Goal 4

Advance cost-effective regulation

STRATEGIC RISKS

The BCSC has a risk management process to identify and rate strategic risks to our mandate. Those risks assessed as most threatening receive broad management attention. Many of our top risks have mitigation strategies described in this report.

In the 2011 Service Plan, we identified three risks that posed the most significant threats to investor protection and market integrity.

Risk 1 / Illegal distributions and fraud

Investors continue to lose their savings in investment frauds. They also fall victim to illegal distributions promoted and sold by either deliberately dishonest individuals or persons who solicit investors without regard to (or awareness of) securities laws.

Risk 2 / Non-compliance in the exempt market ("private placement market")

The private placement market raises billions of dollars, mostly by public companies. It is made up of individuals and companies who buy and sell securities in circumstances where the usual prospectus requirement does not apply, usually because the buyer is sophisticated in investment matters, is wealthy enough to withstand loss, or is a relative or friend of the seller.

It is also an important source of financing for start-up companies making this part of the private placement market inherently risky. There are few disclosure requirements for securities sold in this market and investors cannot easily sell their securities. The challenge for the regulator is to ensure market integrity for the thousands of businesses and investors who participate in this market.

Risk 3 / Inability to investigate market misconduct by traders in offshore secrecy jurisdictions

Foreign bank secrecy laws frustrate our investigations into trades made from offshore accounts when we suspect market misconduct, such as illegal insider trading or market manipulation.

MEASUREMENTS

This section describes the performance measurements by which we track our progress in achieving our goals through our operating activities. We track progress towards our goals using relevant, long-term measures so that stakeholders can assess our performance over time.

We select measurements based on the following criteria:

- *Connection to our goals*—We choose measurements that will assess our progress in achieving our goals and, through them, our mission.
- *Longevity*—We choose measurements that we will be able to track over several years, and whose trends will provide valuable information for improving our performance.
- *Measurability*—We choose measurements for which we can collect accurate data and establish baselines in a timely way.

Some measurements track the overall progress we are making towards achieving our goals. Others measure key operational processes critical to the delivery of an efficient and effective regulatory system.

We critically evaluate our measurements yearly, to ensure they have integrity, and are meaningful. Accordingly, this may result

in reconsidering the measure or the data collection method. Our internal auditors have reviewed the processes we use to collect and calculate our performance measures for completeness and accuracy.

We set targets for each measure on an individual basis that factor in a target's ability to reflect a compliant market, hold BCSC staff accountable for stretch goals, and improve on current results. In fiscal 2012, we achieved 70% of our measurement targets.

For a detailed review of our data sources, collection method and frequency, and controls, refer to pages 9–12 in the performance targets document available on the BCSC website (*About the Commission*).

BENCHMARKS

Currently, these measures are not tracked consistently across other CSA jurisdictions so we do not have benchmark comparisons that help gauge our relative performance to our peers. However, certain other Canadian securities regulators are looking to develop key performance measures to track the outcomes of activities. We will continue to monitor these developments and look for opportunities to benchmark.

Goal 1 / Promote a culture of compliance

Investors are better protected if securities firms and companies that issue securities understand and comply with their regulatory obligations. They must have effective systems and controls in place to ensure compliance with our rules. We intervene to correct non-compliance when warranted.

Strategy 1.1 / Use specialized tools to address exempt market misconduct (misconduct in the "private placement market")
Integrity in the private placement market is vitally important. We considered the tools at our disposal (disclosure, registration, compliance, and enforcement) to see if they could be used to protect investors. Our objective was to use the market intelligence generated by Strategy 2.4 to identify, and then focus our compliance and enforcement resources on, high-risk private placements. This strategy responded to Risk 2: Non-compliance in the exempt market ("private placement market").

During fiscal 2012, we took prompt compliance action by reviewing filings daily to identify high-risk companies, gathered further information regarding these companies, and visited these companies to discuss identified issues. The result is improved disclosure for investors through our regulatory oversight. Corporate Finance staff also worked closely with litigators to fast-track enforcement work on non-compliant private placements.

We sought information directly from investors. We sent 420 questionnaires to investors in 17 companies to determine whether these companies were selling to investors who were entitled to participate in private placements.

We also looked at a variety of other issues, including

- Flagging individuals receiving compensation to see if they were appropriately registered.

- Checking to see if they were relying on a registration exemption similar to the rules in the northwestern jurisdictions of Alberta, Manitoba, Saskatchewan, and the territories. (the Northwest Exemption).
- Providing data that will help us ensure that those in the business of trading are registered in the future.

In March 2012, we amended the Northwest Exemption to restrict who can sell shares in private placements without registration. Effective April 16, 2012, all persons who have been registered in the past (as a mutual fund salesperson, for example) or who have provided financial services to investors can no longer sell these securities without registering with the BCSC, making them subject to rules designed to protect investors.

MEASUREMENTS

Measurement 1.1 / Percentage of reviewed companies that reduce deficiencies in their continuous disclosure
Our Corporate Finance division reviews company disclosure for non-compliance. At the end of each fiscal year, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of companies that received comment letters from us during that year. The results of this review show the extent to which our detailed continuous disclosure review work motivated non-compliant companies to improve their disclosure.

STATUS: MET	RESULTS AND TARGETS						
FISCAL	2010 ACTUAL ¹	2011 ACTUAL ²	2012 TARGET	2012 ACTUAL ⁴	2013 TARGET	2014 TARGET	2015 TARGET
PERCENTAGE OF REVIEWED COMPANIES THAT REDUCE DEFICIENCIES IN THEIR CONTINUOUS DISCLOSURE							
Improved disclosure subsequent to continuous disclosure review	100%	97.1%	> 95%	100%	> 95%	> 95%	> 95%
Improved disclosure to minimum standards	97%	94.1%	N/A ³	100%	Set new baseline to reflect IFRS transition ³	Improve on 2013 baseline	Improve on 2014 baseline

1. All of the 30 companies reviewed in fiscal 2010 improved their disclosure in some areas; 29 (97%) improved to meet the basic standard for compliance.

2. 28 of 34 (92.1%) companies reviewed in fiscal 2011 improved their disclosure in some areas; 32 (94.1%) improved to meet the basic standard for compliance. One company did not show any improvement in its disclosure, and remained cease traded.

3. Canada adopted International Financial Reporting Standards (IFRS) on January 1, 2011, which changes the minimum standards. It will take two fiscal years for the baseline to reset.

4. All 25 companies reviewed in fiscal 2012 improved their disclosure in some areas to meet the basic standard for compliance.

Notes on measurement: This measurement always lags by one year because we have to wait for the next filing cycle to evaluate the year-over-year improvement.

Measurement 1.2 / The degree to which randomly sampled mining companies comply with standards for technical disclosure. Over 60% of Canadian mining companies are based in BC. We

randomly select from a list of BC-based mining companies and analyze whether those companies' most recent technical filings were compliant with National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (NI 43-101). This review shows the extent to which a sample of BC-based mining companies is compliant in specific areas of their technical disclosure.

STATUS: NOT MET	RESULTS AND TARGETS						
FISCAL	2010 ACTUAL	2011 ACTUAL	2012 TARGET	2012 ACTUAL	2013 TARGET	2014 TARGET	2015 TARGET
PERCENTAGE OF RANDOMLY SAMPLED MINING COMPANIES THAT MEET MINIMUM STANDARDS FOR TECHNICAL DISCLOSURE							
Filed disclosure	61%	66%	> 75%	68% ¹	>80%	>80%	>80%
Company websites	50%	46%	> 65%	52% ¹	>70%	>75%	>75%

¹ The results for fiscal 2012 show a modest improvement over 2011, but remain below target levels.

In February 2011, we initiated a targeted review program intended to hold companies more accountable for non-compliance in certain specific areas of NI 43-101. Under this program, we put companies who have materially non-compliant mining disclosure on our defaulting companies list until they correct the disclosure. In most cases, the company needs to issue a news release identifying the non-compliance, and retracting or restating this disclosure as necessary. Recent changes to NI 43-101 should also make companies more accountable for disclosure on their websites. By holding companies more accountable for non-compliance, we anticipate continued improvement of compliance levels in the future.

Notes on measurement: We measure the degree to which BC mining companies meet mining disclosure standards. In our view,

an average score of 70% or better indicates that companies are making an acceptable effort to comply.

Measurement 1.3 / Average number of deficiencies per examination in Capital Markets Regulation

Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using various indicators of risk, we rate a firm's risk so that we can determine how frequently to visit and what type of exam to conduct. During fiscal 2012, we completed 27 on-site reviews. We summarize the results of these on-site reviews in the annual Examinations Report Card, on the BCSC website at www.bcsbc.ca (For Registrants – Compliance Toolkit).

STATUS: NOT MET	RESULTS AND TARGETS						
FISCAL	2010 ACTUAL	2011 ACTUAL	2012 TARGET	2012 ACTUAL	2013 TARGET	2014 TARGET	2015 TARGET
AVERAGE NUMBER OF DEFICIENCIES PER EXAMINATION IN CAPITAL MARKETS REGULATION ¹							
	7.56	3.88	3.69	5.59 ²	5.31	Create new measure	N/A

¹ Based on 27 examinations in fiscal 2012, 32 in 2011, and 16 in 2010.

² The number of deficiencies increased by 44% in fiscal 2012. We failed to meet the target for this measure because:

- a few firms had an exceptionally high number of deficiencies. Four firms had over 10 deficiencies. This affected the average number of deficiencies reported. Removing the four firms with the highest number of deficiencies from the total population of 27 would give an average number of deficiencies of 3.81.
- the 2011 average deficiency figure was exceptionally low because we participated in a CSA marketing sweep. Because this sweep focused on just one area of potential deficiencies, this resulted in fewer compliance deficiencies uncovered.

Notes on measurement: The deficiencies from for-cause exams are excluded from this measure.

Goal 2 / Act decisively against misconduct

We aim to achieve timely enforcement through early intervention and the pursuit of cases that will deter future misconduct. The BCSC cooperates with securities regulators in other jurisdictions to share information, conduct investigations, and issue reciprocal enforcement orders. We also aggressively pursue securities fraud cases and other misconduct through administrative proceedings. Under administrative proceedings, the BCSC can impose monetary sanctions, and order people out of the market. We work closely with Crown Counsel to pursue criminal charges where warranted. Criminal convictions allow for the imposition of penalties, including prison sentences, which help deter serious misconduct.

Strategy 2.1 / Strengthen criminal investigation capability

Criminal convictions bring public penalties that help deter serious misconduct in capital markets. This strategy responds to **Risk 1: Illegal distributions and fraud**, with the goal of working closely with Crown Counsel to pursue criminal charges related to illegal distributions and fraud where warranted.

During the year, we increased our capacity to take on potential criminal cases by adding an additional investigator to the criminal investigation team in our Enforcement division. There was an increase in number of cases and in the complexity of cases. There was an overall increase in charges from 40 charges in five cases last year to 251 charges in seven cases this year. The increase from five *Criminal Code* charges last year to 58 this year also demonstrates the increased complexity of the cases.

Strategy 2.2 / Expand and leverage community and inter-agency networks

Our market intelligence initiative is core to mitigating the risk of securities fraud by addressing frauds faster or with better chances of gathering good evidence and avoiding losses. This strategy addresses **Risk 1: Illegal distributions and fraud**. Currently, we are drawing on several programs to broaden our market intelligence work. These include a formal program involving community "tipsters" and wider engagement with deposit-taking financial institutions.

Community volunteers

During fiscal 2012, we trained 53 community volunteers who work with the police in Victoria, Kelowna, and Nanaimo. We received four tips from these volunteers. We provided news and information to coordinators in each area as well as a six-month report to update them on the status of the program. Through the volunteer group in Kelowna, we filmed an RCMP officer in Kelowna talking about the techniques fraud artists use to take people's money and published it on YouTube.

Bank outreach

This year we continued to meet with bank and credit union staff to increase awareness about our investigations and to reinforce the value of early identification of securities schemes. We gave 15 presentations to staff from nine different financial institutions. We also hosted a breakfast meeting for representatives from security groups at local financial institutions. We received seven tips from staff at financial institutions alerting the BCSC to potentially suspicious investment activity. Earlier tips allowed us to minimize investor losses.

Police outreach

In fiscal 2012, we provided training on investment fraud at the police fraud investigators course, generally held two times a year. We also met with several RCMP agencies, Vancouver and Victoria police, Canadian Border Services, as well as the US Department of Homeland Security. As a result of this outreach work, we received four referrals, requests for assistance or information from police agencies. Our Enforcement division hosted quarterly inter-agency fraud group meetings with governmental and non-governmental agencies involved in fraud investigations and consumer protection.

Strategy 2.3 / Address inability to investigate market misconduct by traders in offshore secrecy jurisdictions

Bank secrecy laws and nominee account holders frustrate our investigations into insider and manipulative trading in offshore accounts. The objective of this strategy was to obtain more information about dealers that trade in the US OTC markets and about the orders they may receive from secrecy jurisdictions. This strategy responds to **Risk 3: Inability to investigate market misconduct by traders in offshore secrecy jurisdictions.**

During fiscal 2012, with assistance from IIROC, we tested whether dealers that trade in the US OTC markets were making reasonable judgements about clients, and about the risks inherent in trading in OTC securities from secrecy jurisdictions. We shared the results with IIROC and used the information we received to support renewing the existing conditions that apply to dealers that trade in US OTC markets. We are also using the information to develop proposed amendments to the conditions.

Strategy 2.4 / Build market intelligence systems about exempt market ("private placement market")

Developing market analysis capacity will aid in the selection of high-risk filings for our compliance and enforcement work in the private placement market. This strategy responds to **Risk 2: Non-compliance in the exempt market ("private placement market").**

During fiscal 2012, we introduced new disclosure requirements for securities distributed in the private placement market

to provide more information electronically to investors and regulators, thus supporting investors' due diligence efforts and our compliance work.

We are also building a searchable filing database to help us determine trends involving particular directors, officers, promoters, or dealers that contribute to filings that are high risk. This will also enable us to take prompt compliance and enforcement action.

In fiscal 2012, we identified first time filers as a risk factor and used standardized production orders to gather more information about these new companies and to alert them that they are part of the regulatory system.

We also developed a risk model for private placements that will enable staff to target high-risk companies and distributions for compliance action. We plan to implement the model in 2012-13.

MEASUREMENTS

Measurement 2.1 / Action in response to ongoing misconduct

This measure focuses our efforts on early detection and shows our ability to take early action to stop misconduct. We can significantly reduce the harm to the public when we can identify and act quickly to disrupt misconduct. We track a specific number of intervention types and measure how long it takes us to implement the intervention from the opening of the complaint.

STATUS: MET		RESULTS AND TARGETS					
FISCAL		2010 ACTUAL ¹	2011 ACTUAL ²	2012 TARGET	2012 ACTUAL ³	2013 TARGET	2014 TARGET
AVERAGE TIME TO RESPOND TO MISCONDUCT WITH DISRUPTIVE ACTION							
		Not measured	108 days	97 days	93 days	87 days	Decrease average by 10% over 2013
							Decrease average by 10% over 2014

1. We revised the measurement in fiscal 2011. Therefore, we have not included a measurement for 2010 because it is not comparable.

2. In fiscal 2011, we introduced a new program to seek out active illegal distributions, discussed below.

3. In fiscal 2012, we took action on 43 complaints. We removed five outliers that resulted from us issuing freeze orders based on information gathered from our ongoing investigations. In these cases, we determined that the misconduct was no longer active.

Notes on measurement: Using this program, we track a specific number of intervention types, and measure how long it took us to implement the intervention from the opening of the complaint. We measure this statistic by looking backwards from the disruptive action taken to the discovery of the case. We check whether the activity was active when we discovered it. We then

measure the time taken by the Enforcement division to act on these incidents.

Enforcement intends to re-evaluate this statistic in the new fiscal year because we are unable to assess the direct impact of disruptive action on a respondent (other than the impact of freeze orders).

Measurement 2.2 / Timely resolution of enforcement cases

We want to be transparent about the average time our administrative enforcement process takes. For the cases we close by settlement or a decision in a fiscal year, we measure the

average number of months a case is open from when we first learn of the conduct to the case's completion by settlement or decision.

STATUS: MET	RESULTS AND TARGETS						
	2010 ACTUAL	2011 ACTUAL	2012 TARGET	2012 ACTUAL	2013 TARGET	2014 TARGET	2015 TARGET
FISCAL							
AVERAGE LIFE, IN MONTHS, OF CASES RESOLVED VIA SETTLEMENT OR ENFORCEMENT DECISION	27.7	25.5	28 ¹	20 ²	18 ³	Set according to formula ⁴	Set according to formula ⁴

1. This target was set based on service standards for cases that existed at the beginning of the fiscal year.

2. In 2012, we completed 21 cases. Seventeen of these were through decisions with an average duration of 20.3 months and four through settlement with an average duration of 18.6 months. The new Fast Track program, allows us to act more swiftly on easily proven cases while maintaining rigour for major investigations and has contributed to this reduction.

3. We have based this target for 2013 on a 10% improvement from 2012. Enforcement staff believes that to be reasonable improvement.

4. We calculate the target based on open cases in enforcement. For the current cases, we consider the enforcement steps outstanding based on the age of the cases and internal service target timetables.

Notes on measurement: Because of the ever-changing nature of enforcement cases, past history is not a predictor of future results. Enforcement intends to re-evaluate this measure in 2013 based on comments received from Simon Fraser University Statistics

Department in 2011 that "average duration" is not a statistically sound measure given our small sample set and the difference between the specifics of each case.

Goal 3 / Educate investors

Our goal is to help investors protect their financial interests. We want investors to have the confidence to research and assess potential investments before they invest.

We focus on these core areas to support a successful investor education program:

- *Increase public awareness*—We increase awareness of our education programs so that investors learn the skills they need to help them protect their finances.
- *Reach investors early*—We expand financial life skills programs to help investors spot fraudulent investments before they suffer investment losses.
- *Strengthen investor education*—We provide tools and information to help investors get better service and advice.
- *Develop partner relationships*—We build partnerships to reach ethnic and religious communities throughout the province.

Strategy 3.1 / Community outreach to reduce risk of affinity fraud

Some of the recent Ponzi/affinity schemes in Canada have involved ethnic communities, including the Kim case in BC's South Korean community and the Badshah case in BC's South Asian community. This strategy specifically addresses **Risk 1: Illegal distributions and fraud**.

During fiscal 2012, we ran advertising campaigns to raise public awareness of the warning signs of investment fraud. The first targeted the Chinese and South Asian communities, delivering television, radio, and print advertising to BC residents whose primary language was Mandarin, Cantonese, or Punjabi. The second targeted BC's general population, delivering English-language newspaper, radio, print, and direct mail advertising in communities with a high proportion of British Columbians who are aged 50+.

Post-campaign research showed that audiences in all communities rated the campaigns highly for relevance, ease of understanding, information value, and overall impression. Awareness and favourable impressions of the BCSC increased among all audiences and members of each target audience were much more likely to seek information from the BCSC after being exposed to the campaigns.

We also commissioned two important pieces of national research.

The *National Report Card on Youth Financial Literacy* was the first comprehensive Canadian benchmark report on youth financial life skills. The study included a financial literacy test. BC had the highest rating. One explanation for this result is the fact that BC has had a mandatory financial life skills course in its high school curriculum since 2004.

The second study, the *National Investment Fraud Vulnerability Report*, confirmed some of the key factors that make older Canadians vulnerable to investment fraud. A study of almost 2,500 older Canadians found that one-in-five fell for a highly risky investment offer; more than two-in-five don't understand the fundamental relationship between risk and return; and only one-in-four have a realistic expectation of the current rates of return for their investments.

During fiscal 2012, we also attended seminars and meetings with Chinese and South Asian communities and various other religious and ethnic communities, created videos in Cantonese, Mandarin and Punjabi, and posted on in-language websites. Finally, we gave a keynote speech to the Vancouver-based consular community to explain what the BCSC does and when consular officials should contact us for advice or information.

MEASUREMENTS

Measurement 3.1 / Complaints and tips received from InvestRight programs

Through our public awareness and outreach programs, we aim to increase the flow of complaints and information we receive about possible investment frauds or illegal activities. We track the number of referrals, tips, queries, and complaints received by phone and email in BCSC Inquiries that are traceable to InvestRight investor education activity, plus the number of *Report a Scam* and complaint forms submitted through *InvestRight.org*.

STATUS: MET	RESULTS AND TARGETS						
FISCAL	2010 ACTUAL	2011 ACTUAL	2012 TARGET	2012 ACTUAL	2013 TARGET	2014 TARGET	2015 TARGET

NUMBER OF COMPLAINTS AND TIPS RECEIVED AS A RESULT OF INVESTRIGHT
INVESTOR EDUCATION AND INDUSTRY OUTREACH PROGRAMS

68	78	82	147 ^{1,2}	154	Increase 5% over 2013	Increase 5% over 2014
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1. We attribute the 88% increase in fiscal 2012 to mass media advertising from the public awareness campaigns.

2. In addition to the 147 complaints and tips in fiscal 2012, we also received an additional 112 tips on the Samji/Patel case, triggered by an Investor Alert (Refer to page 62 for full discussion of this case).

Measurement 3.2 / Percentage of workshop participants who recall investor education warning signs (Red Flags)

We deliver investor education workshops to BC residents, primarily seniors. We use an independent consultant to conduct a follow-up phone survey with participants who previously agreed

to be contacted. To determine recall of investment fraud warning signs amongst those we have spoken to, the consultant asks each respondent, "Can you name three warning signs of investment fraud?"

STATUS: MET	RESULTS AND TARGETS						
FISCAL	2010 ACTUAL	2011 ACTUAL	2012 TARGET	2012 ACTUAL	2013 TARGET	2014 TARGET	2015 TARGET

PERCENTAGE OF WORKSHOP PARTICIPANTS WHO RECALL THREE
INVESTOR EDUCATION WARNING SIGN MESSAGES (RED FLAGS)

11%	13%	16%	19% ¹	22%	Increase 3% over 2013	Increase 3% over 2014
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1. Recall of one message was 21% and recall of two messages was 22%.

Measurement 3.3 / Percentage of BC public aware of BCSC

We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn and what to do when faced with a possible fraud or

unsuitable investment opportunity. We use a consultant to survey the BC general population, either as part of a larger research effort or to gather data for this measure.

STATUS: NOT MET	RESULTS AND TARGETS						
FISCAL	2010 ACTUAL	2011 ACTUAL	2012 TARGET	2012 ACTUAL	2013 TARGET	2014 TARGET	2015 TARGET

PERCENTAGE OF BC PUBLIC AWARE OF BCSC

36%	46%	> 45%	41% ¹	> 45%	> 45%	> 45%
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1. While the general population aged 18+ showed 41% awareness this year, awareness was 56% among investors and 55% among our key target audience aged 50+.

Goal 4 / Advance cost-effective regulation

Our goal is to advance cost-effective regulation. Regulation imposes costs through fees, compliance costs, and restrictions on innovation. Investors inevitably pay these costs. We aim to provide strong investor protection and market integrity for the least cost.

We advance cost-effective regulation by focusing on three core areas:

- *Emphasize practical solutions*—When the market cannot fix market problems, we emphasize practical solutions, looking at the full range of potential regulatory responses and advancing only those that will provide significant benefits that exceed the costs.
- *Use our resources efficiently*—We deploy our resources efficiently through risk management, teamwork, and relevant performance measures.
- *Deliver services reliably*—We deliver key regulatory services, on a timely basis, recognizing that delay adds to costs for market participants.

Strategy 4.1 / Tailoring venture issuer regulation

Fast-growing companies, predominantly in their first 10 years of existence, create proportionately more new net employment in the broader market than long-established enterprises. A healthy venture company market, together with strong resource markets, has provided a catalyst for significant economic growth in British Columbia in recent years.

In fiscal 2012, we published for comment proposed rules and forms that would introduce a new mandatory regulatory regime for venture companies. This regime would result in disclosure requirements that are more suitable and manageable for companies at this stage in their development; and would streamline requirements so venture companies have more time to focus on business growth and development. The new regime would also ensure that venture company disclosure was more useful and user-friendly for investors by focusing on information most relevant to those investors. The comment period closed in October 2011. At the end of the fiscal year, we were analyzing the comments.

We also led the work on the cost-benefit analysis for the proposed rule. We surveyed companies, investor relations consultants, and investors in venture companies. The purpose of the survey was to determine the impact on venture companies and their investors of several key aspects of the proposed rules.

Strategy 4.2 / Build risk-based approaches for critical regulatory operations

Developing risk-based modeling will build a strong foundation for data collection and analytics to support consistent and defensible oversight decisions. It will enable the BCSC to focus staff's experience and judgment on higher-risk market participants and vary the intensity of oversight reviews based on risk. This will reduce the cost of compliance for lower-risk market participants and demonstrate cost-effective regulation to stakeholders.

In fiscal 2012, we worked with a consultant and developed risk models for

- *Individual registration applicants*—to reduce risk of unqualified and unethical individual registrants dealing with the public
- *Registered firms*—to reduce risk of significant compliance deficiencies and allocate exam resources
- *Public company disclosure*—to reduce risk of companies providing investors with incomplete, inaccurate, or dishonest information and allocate review resources
- *Private placement filings*—to reduce risk of non-reporting companies misusing exemptions or providing non-compliant disclosure to investors, and to allocate assessment resources

During the year, we also designed the information architecture necessary to implement each of these four models.

During the next fiscal year, we will create the necessary IT infrastructure to put these models into practice.

MEASUREMENTS

Measurement 4.1 / Average score on cost-effective regulation scorecard

To measure cost-effective regulation, we use a scorecard that tracks the important steps and outcomes in responding to market problems.

STATUS: MET		RESULTS AND TARGETS						
FISCAL		2010 ACTUAL	2011 ACTUAL	2012 TARGET	2012 ACTUAL	2013 TARGET	2014 TARGET	2015 TARGET
AVERAGE SCORE ON COST-EFFECTIVE REGULATION SCORECARD								
		88%	95%	> 90%	90.6% ¹	> 90%	> 90%	> 90%

¹ In fiscal 2011, we had six policy projects that qualified for review, five of which were national initiatives. Our score means that on average we hit the standards in the scorecard for all but one area.

Notes on measurement: We report the average score of all the projects completed each year. We do not include rules that we adopt purely to harmonize with other jurisdictions in this analysis. The process the CSA uses to create harmonization rules does not consider problem definition or alternative tools.

Measurement 4.2 / Average approved project post-implementation score

We assess each local IT-enabled project at a predetermined time after the project's completion (as documented in the project proposal) and score the project's success relative to its proposed benefits.

STATUS: MET		RESULTS AND TARGETS						
FISCAL		2010 ACTUAL	2011 ACTUAL	2012 TARGET	2012 ACTUAL	2013 TARGET	2014 TARGET	2015 TARGET
AVERAGE APPROVED PROJECT POST-IMPLEMENTATION SCORE								
		83%	N/A	> 80%	100% ¹	> 80%	> 80%	> 80%

¹ We scored one project, Conversion to Microsoft Exchange. We will complete postimplementation reviews of other projects completed during 2012, namely the Digitizing Issues list improvements, the Form 45-106E6, and the Network Improvements projects, in fiscal 2013.

Notes on measurement: We assess each IT-enabled project at a predetermined time after the project's completion (as documented

in the project proposal), and score the project's success relative to its proposed benefits.



Financial Report

AUDITED FINANCIAL STATEMENTS

Management Discussion & Analysis

For the Year Ended March 31, 2012

We prepared this discussion and analysis of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 10, 2012. Read it in conjunction with our audited financial statements and related notes for the year ended March 31, 2012.

We prepared the financial information in this report in accordance with Canadian public sector accounting standards. We report in Canadian dollars. Totals and percentages may not always add up due to rounding.

TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS

This is our first report following our transition to public sector accounting standards. We applied accounting changes retroactively to our April 1, 2010 transition date. In addition, we adopted PS 3450 *Financial Instruments*, effective April 1, 2010 to enable us to continue accounting for investments using fair value. The transition resulted in the reclassification of cash and investments, the reclassification of intangible assets, the reclassification of unrealized investment gains and losses to a new category of accumulated surplus, and the amalgamation of previously designated accumulated surpluses. The transition reduced fiscal 2012 surplus by about \$1 million and increased fiscal 2011 surplus by about \$0.1 million, because we no longer immediately recognize investment portfolio market value changes.

INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

During the year, we reviewed our ICFR processes and updated documentation where necessary. Our internal auditors tested operating effectiveness of the BCSC's ICFR as at March 31, 2012 and concluded that the ICFR was operating effectively and that there are no material weaknesses.

There have been no changes that occurred during the most recent year ended March 31, 2012, that have materially affected, or are reasonably likely to materially affect, the BCSC's ICFR.

NATURE OF OPERATIONS

We are the provincial crown corporation responsible for regulating BC capital market activity.

We do not receive transfers from government tax revenues. Instead, fees charged to securities market participants fund our operations. Revenues fluctuate with market activity while most of our costs are fixed. Salaries, benefits, and occupancy costs account for about 80% of operating expenses. For the year ended March 31, 2012, we had an average of 210 full-time equivalent employees (fiscal 2011 – 195).

As a government agency, we are exempt from income taxes. We pay HST but receive a 100% rebate on taxable purchases.

REVENUE SOURCES

About 95% of our funding comes from filing, registration, and application fees paid by market participants under the *Securities Act*. A small component of our funding comes from sanctions and penalties. The remainder of our operational funding comes from investment income.

Management Discussion & Analysis

For the Year Ended March 31, 2012

Fee revenue

A large part of our fee revenue comes from fees paid by mutual funds to distribute securities and file financial statements, and fees paid by the five largest Canadian banks to register their representatives.

Our fee model is premised on generating sufficient revenue to allow us to break even over the business cycle. We generate surpluses during high points in the market's cycle, and may generate deficits during bear market periods.

We collect the following fees:

CATEGORY	SOURCE	Proportion of fee revenue	
		FISCAL 2012	FISCAL 2011
Distribution fees	Public companies, private companies and mutual funds, to file disclosure documents	55%	53%
Registration fees	Firms and individuals, to register with us to sell or advise on securities	31%	32%
Financial filing fees	Public companies and mutual funds, to file annual and interim financial statements	13%	14%
Other fees	Market participants, primarily to request Securities Act exemptions	1%	1%

Distribution fees

Distribution fee revenues vary depending on the number and size of securities offerings. The largest share of distribution fee revenue comes from prospectuses¹, exempt distribution reports², and annual information forms³. Issuers pay fees to file these documents. When gross sales under a prospectus and an exempt offering exceed \$7.5 million and \$0.3 million, respectively, an additional fee, called a "percent of proceeds fee," may be payable.

Our revenue from distribution fees falls significantly during weaker markets because fees related to gross sales account for about half of distribution fee revenue.

About half of distribution fee revenue relates to fees from mutual fund sales in BC. We receive the majority of revenue related to mutual fund sales in arrears, so distribution revenue changes lag market events.

Registration fees

Firms and individuals register with us to sell or advise on securities. Historically, registration fee revenue had low volatility and has grown steadily over the last decade.

1. Companies and mutual funds must normally prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status, and management of the company or fund.

2. Prospectus exemptions allow companies to sell securities without a prospectus when other factors (like relationship or financial sophistication) permit investors to have access to information about the proposed transaction that could affect their purchase decision.

3. Annual information forms give current details of the operations, financial status, and management of the company.

Management Discussion & Analysis

For the Year Ended March 31, 2012

Financial filing fees

Companies and mutual funds (reporting issuers) pay a fee to file their financial statements, and pay a higher fee if they file late. The reporting issuer population increases modestly most years.

Other fees

Other fees are mostly exemption application filing fees. Other fees account for a small proportion of fee revenue and are not growing.

Enforcement sanctions

We order administrative penalties and the return of ill-gotten gains to victims under the *Securities Act*. We also negotiate settlement amounts. Enforcement sanctions, which depend on the timing and nature of enforcement actions, vary significantly between periods.

We recognize in revenue sanctions we determine are collectible. We spend these revenues only to educate securities market participants and the public about investing, financial matters, or the operation and regulation of securities markets.

Year ended March 31

(thousands)	2012	2011
Current period sanctions	\$ 55,934	\$ 56,933
Uncollectible portion of sanctions not recognized	(55,652)	(56,548)
Recovery of prior year uncollectible sanctions	63	5
Sanction revenue	\$ 345	\$ 390

Collecting sanctions is difficult. Collection targets often have limited assets, have poor credit, or have left BC. We have collected \$14.3 million (7%) of \$198.7 million sanctioned since our incorporation on April 1, 1995. We continue to pursue the outstanding amounts vigorously. However, of the \$184.4 million outstanding, only \$0.1 million is likely collectible and accrued in our financial statements. About 84% (\$155.0 million) of the \$184.4 million outstanding relates to six cases. About 44% (\$81.5 million) of the \$184.4 million outstanding relates to disgorgement orders.

Investment income

Our prime investment objectives for surplus funds are capital preservation and sufficient liquidity so we can meet our expenditure commitments. We invest in highly liquid, high quality money market instruments, government securities and investment-grade corporate debt securities.

Management Discussion & Analysis

For the Year Ended March 31, 2012

EXPENSES

We are committed to managing our expenses so they do not exceed expected revenue over the business cycle. We do this by preparing an annual budget approved by the board, monthly budget variance reporting to management, requiring board approval of significant unbudgeted expenses, and continually improving our processes.

Salaries and benefits

Salaries and benefits account for about 70% of our expenses. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, we offer a compensation package that includes performance-based salary increases. To retain and recruit staff and remain market competitive, we conduct salary surveys annually and make adjustments as appropriate. We focus our staff effort (with overhead allocated proportionately) on our strategic goals:

STRATEGIC GOAL	FISCAL 2012	FISCAL 2011
Promote a culture of compliance	38%	38%
Act decisively against misconduct	38%	38%
Educate investors	10%	9%
Advance cost effective regulation	14%	15%

Professional services

We engage consultants when outsourcing is more cost-effective than performing the work ourselves. Professional service costs relate primarily to the following:

- risk model implementation consulting
- legal services and expert opinions to support the BCSC
- fees paid to IIROC for registration services delegated to them
- our share of CSA project and management costs
- legislative counsel services
- interview and hearing transcription services
- data entry services
- internal audit services

Education

Many British Columbians are not financially literate nor investment savvy. Knowing one's risk profile and understanding one's investments reduces the odds of falling victim to investment fraud. This makes education central to our mission of protecting investors. We expend funds to educate securities market participants and the public about investing, financial matters, or the operation and regulation of securities markets.

We fund education projects both directly and in partnership with others. We evaluate each proposed project against criteria that assess a potential partner's background and experience, the need for the project, the project's design and success measures, and the degree to which the project's goals align with our service and operating plans.

Management Discussion & Analysis

For the Year Ended March 31, 2012

FINANCIAL HIGHLIGHTS

Year ended March 31

(millions)	BUDGET	2012	2011
REVENUES			
Regulatory fees	\$ 33.0	34.9	33.5
Enforcement sanctions	0.3	0.3	0.4
Investment income	1.3	1.6	1.0
	\$ 34.6	36.9	34.9
EXPENSES			
Salaries and benefits	\$ 25.1	25.9	23.5
Education program disbursements	1.0	1.5	0.6
Other expenses	8.2	8.9	7.0
	\$ 34.3	36.2	31.2
Surplus, for the year	\$ 0.3	0.6	3.7
ASSETS			
Cash		\$ 6.6	16.5
Investments		36.1	24.9
Capital assets		3.2	1.7
		\$ 46.9	43.9
ACCUMULATED SURPLUS		\$ 33.6	32.0
OTHER INFORMATION			
Capital additions		\$ 2.2	0.6

Surplus declined 83% to \$0.6 million. Higher operating costs from more staff and higher project expenses offset revenue gains from strong market activity.

Revenues grew 6% due to increased securities distribution activity, expanded registration requirements, and higher investment income. Fees related to mutual fund prospectuses and gross sales were the highest ever, in part due to strong growth of "ETF" funds. Exempt distribution report fees increased 10% primarily because of higher pooled fund gross sales. Investment income increased 59% because we invested more of our surplus in longer-term government and high quality corporate debt to generate higher returns.

Expenses increased 16%. We increased expenses to expand organizational capacity and advance several key initiatives, and the board then approved additional spending in the third and fourth quarters to expedite progress on those projects. Salaries and benefits expense grew 10% because of 2.6% merit increases, 8% more staff to expand compliance and enforcement capacity and to develop a case management system, and severance. Professional fees increased 62% from consulting related primarily to developing risk-based regulatory models in four areas, and developing an exempt distribution report database. Education spending increased 128% to expand our fraud awareness programs. Rent increased significantly following a ten-year extension of our lease.

Management Discussion & Analysis

For the Year Ended March 31, 2012

We are financially sound, ending the year with \$42.7 million in cash and investments, and expect to break even over the coming years, even as we expand our capacity and invest in our infrastructure to keep pace with financial industry and regulatory developments.

Actual versus budgeted results

We prepare an annual budget that the board and government review and approve.

Surplus was \$0.3 million better than expected. We expected lower market activity, but fee revenues and investment income grew \$2.3 million above budget, for the reasons noted above. We planned a 10% expense increase to expand organizational capacity and advance several key initiatives. Actual expenses increased \$1.9 million more than budget after the board approved additional spending in the third and fourth quarters to expedite progress on those projects.

ANALYSIS OF FISCAL 2012 REVENUE

Year Ended March 31, 2012

[thousands]	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
	ACTUAL	BUDGET	VARIANCE	%	MAR. '12	MAR. '11	VARIANCE	%
REVENUES								
Distribution	\$ 19,198	\$ 17,300	\$ 1,898	11%	\$ 19,198	\$ 17,775	\$ 1,423	8%
Registration	10,860	10,300	560	5%	10,860	10,605	255	2%
Fin. Filing	4,668	5,090	(422)	-8%	4,668	4,861	(193)	-4%
Other	171	278	(107)	-39%	171	232	(61)	-26%
Designated	345	300	45	15%	345	390	(45)	-12%
Inv. Income	1,630	1,340	290	22%	1,630	1,027	603	59%
	\$ 36,872	\$ 34,608	\$ 2,264	7%	\$ 36,872	\$ 34,889	\$ 1,982	6%

REVENUE ANALYSIS VERSUS LAST YEAR

We have not increased fee rates in over a decade. Fee revenue increases reflect higher market activity. Revenue increased \$2 million:

- Distribution revenue was \$1.4 million higher due to higher mutual fund and exempt distribution filing fees, as described above. In particular, twelve-month average non-money market mutual fund gross sales hit a plateau just before year-end, after more than two years of growth.
- Registration revenue, relating to both firms and individuals, increased \$0.3 million due to an increase in the number of registrants caused by registration requirement changes and natural growth in the registrant population.
- Financial filing revenue fell \$0.2 million. Companies transitioning to IFRS filed later, and we wrote off uncollectible late insider fees.
- Investment income was \$0.6 million higher due to higher fixed income returns. Our average invested value increased 10%, and we held a larger proportion of our portfolio in fixed income securities versus demand deposits. In addition, our investment in the bclMC Canadian Universe Bond Fund, which invests in Canadian dollar denominated government and investment-grade corporate debt, performed strongly. Our annualized real return on average cash and investment balances was 6.9% (2011 – positive 2.0%).

Management Discussion & Analysis

For the Year Ended March 31, 2012

REVENUE ANALYSIS VERSUS BUDGET

Revenue was \$2.3 million ahead of budget:

- Distribution revenue was \$1.9 million higher than expected. We expected mutual fund prospectus and exempt distribution fees to decline over the prior year. Instead, mutual fund revenues hit a record high, due in part to a significant number of new "ETF" funds, and exempt distribution revenue increased significantly. Non-mutual fund prospectus activity declined modestly, as expected.
- Registration revenue was \$0.6 million higher than expected due to changes in registration requirements.
- Financial filing revenue was \$0.4 million lower than budget for the reasons noted above.

ANALYSIS OF FISCAL 2012 EXPENSES

Year Ended March 31, 2012

[thousands]	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
	ACTUAL	BUDGET	VARIANCE	%	MAR. '12	MAR. '11	VARIANCE	%
EXPENSES								
Salaries	\$ 25,914	\$ 25,145	\$ 768	3%	\$ 25,914	\$ 23,548	\$ 2,366	10%
Education	1,452	975	477	49%	1,452	636	816	128%
Prof. Fees	3,325	2,529	796	31%	3,325	2,051	1,274	62%
Deprec.	652	700	(48)	-7%	652	786	(134)	-17%
Occupancy	2,272	2,271	1	0%	2,272	1,954	318	16%
Info. Mgmt.	977	820	157	19%	977	788	189	24%
Other	1,653	1,839	(186)	-10%	1,653	1,453	200	14%
	\$ 36,244	\$ 34,279	\$ 1,965	6%	\$ 36,244	\$ 31,216	\$ 5,028	16%

EXPENSES VERSUS LAST YEAR

Expenses increased \$5 million:

- Salaries increased \$2.4 million due to an 8% increase in staff complement to support strategic initiatives, average 2.6% merit increases, and because of severance.
- Education spending is up \$0.8 million because of our *Be Fraud Aware* media campaign.
- Professional fees increased \$1.3 million, to support work on four new regulatory risk models, an exempt distribution filings database, an MS Office software upgrade, a public website redesign, and a data governance framework.
- Occupancy increased \$0.3 million because rent increased after extending our lease.
- Information management increased \$0.2 million due to the timing of records storage expenses and because we increased our capitalization threshold.
- Other expenses increased \$0.2 million because of survey work to assess public awareness of the BCSC, and because of higher administration and training costs.

Management Discussion & Analysis

For the Year Ended March 31, 2012

EXPENSES VERSUS BUDGET

Expenses were \$2 million higher than budget:

- Salaries were \$0.8 million higher than budget, due to board-approved additional staffing to further expand compliance and enforcement capacity and to expedite redevelopment of our enforcement file workflow system. We also accrued severance at year-end.
- Education spending was \$0.5 million higher than budget because the board approved expanding our Chinese and South Asian fraud awareness campaign to English language speakers.
- Professional fees were \$0.8 million higher than budget, due to board-approved additional spending to expedite work on the projects noted above.
- Information management expense was \$0.2 million higher than budget due to the timing of records storage expenses.
- Other expenses, which includes administration, training, travel, external communications, and telecommunications, was \$0.2 million lower than budget.

FINANCIAL POSITION AND LIQUIDITY

Use of financial instruments

The principal financial instruments affecting our financial condition and results of operations are cash and investments. Our cash and investments do not expose the BCSC to significant credit or material market risk because we invest in liquid, high quality money market instruments, government securities and investment-grade corporate debt securities. Liquidity risk is low because our investments are in pooled fund units redeemable within two weeks, without penalty. The underlying assets in the pool are also highly liquid.

Our investments are exposed to interest rate risk. The fair value of our investments in longer-term fixed rate securities fluctuates significantly with changes in interest rates. Based on the March 31, 2012 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately \$1.9 million. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would increase after an interest rate increase. We expect interest rates to increase modestly over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. Current investment durations for the Short Term Bond Fund and the Canadian Universe Bond Fund are 2.7 years and 6.9 years, respectively.

Liquidity

Cash flow was negative for the year, at \$9.9 million (fiscal 2011 – positive \$5.4 million). The cash outflow was due primarily to investing \$8.6 million of cash, and spending \$2.2 million on capital improvements, primarily information technology additions and office renovations.

Our fee model may result in surpluses and deficits over the business cycle because revenues fluctuate while our costs are mainly fixed. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn. We ended the year with \$42.6 million in cash and investments, a \$1.2 million increase over the comparative year. We have internally designated \$15 million of the surplus to a fee reserve, so temporary revenue reductions will not immediately impair our ability to operate, or require immediate fee increases.

Management Discussion & Analysis

For the Year Ended March 31, 2012

Assets

Amounts receivable declined \$0.1 million to \$0.5 million (March 31, 2011 - \$0.6 million). About half of the balance relates to an HST receivable, about 20% are cost recoveries due from the Canadian Securities Regulation Regime Transition Office, and about 20% are enforcement sanctions receivable.

Capital assets were \$3.2 million (March 31, 2011 - \$1.7 million). The increase is because information technology additions totalling \$1.6 million, and leasehold improvements totalling \$0.5 million, were partly offset by \$0.7 million amortization.

Prepaid expenses increased \$0.2 million to \$0.5 million (March 31, 2011 - \$0.3 million) following the purchase of a multi-year Windows 7 / Office 2010 license.

We ended the year with \$33.6 million surplus (March 31, 2011 - \$32.0 million). We have internally designated \$15 million of the surplus to a fee stabilization reserve as noted above. We have internally designated \$1.7 million of the surplus to our education reserve because we believe enforcement sanction revenues should fund investor and industry education, not our operations.

Liabilities

Accounts payable increased \$1 million to \$2 million (March 31, 2011 - \$0.9 million), reflecting a significant increase in project-related consulting work completed but not paid at year-end.

Accrued salaries decreased \$0.1 million to \$2.9 million (March 31, 2011 - \$3 million). We paid out fiscal 2011 performance incentives in June 2011 and accrued towards fiscal 2012 performance incentives.

Deferred revenue increased to \$7.6 million (March 31, 2011 - \$7.2 million) because of higher registration volumes. Deferred revenue is calendar year registration fees received in advance and amortized to income over the calendar year to which they relate.

Contractual obligations

Our lease ends November 30, 2021.

Our significant contractual obligations at March 31, 2012 are:

(millions)	TOTAL	< 1 YEAR	2 - 3 YEARS	4 - 5 YEARS	> 5 YEARS
Rent and operating costs	\$ 27.1	\$ 2.5	\$ 5.2	\$ 5.4	\$ 14.0

RISKS AND OPPORTUNITIES

Risk management

We practice enterprise risk management (ERM) to identify and manage our business risks. We follow the Australian risk management Standard (AS/NZS 4360:2004, or AS 4360) and the related Guideline. Our ERM process updates the board semi-annually on key risks and supports our strategic planning process. We also maintain a business continuity plan and can restore critical functions within 8 hours.

Management Discussion & Analysis

For the Year Ended March 31, 2012

Securities regulatory reform

The BC government supports the concept of a national regulator. We are engaged in this process and providing resources as necessary. We expect the BCSC to remain a going concern while participating governments consider whether to implement a national regulatory structure.

Fee revenue

We fund operations primarily from filing fees paid by market participants. Fee revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn.

Reliance on CDS Inc.

Under various agreements with the CSA that end on October 31, 2013, CDS Inc. (CDS) operates three national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 80% of our fee revenue through SEDAR and NRD. CDS maintains a comprehensive business continuity plan for each system. However, should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

National electronic filing systems and operating agreements

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission (OSC), and l'Autorité des marchés financiers, together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Industry Regulatory Organization of Canada Inc. Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues (shortfall). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs (surplus) to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators share actual versus budgeted system operating cost (expense) variances.

The OSC is holding \$80.5 million (March 31, 2011 - \$64.9 million) in trust, on behalf of the CSA Principal Administrators. The funds are the national filing systems' accumulated surpluses and expenses variances and interest earned on those amounts to March 31, 2012. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users.

In fiscal 2010, the CSA began a national project to rebid operation of, and then redevelop, the national systems. As at March 31, 2012, expenses related to the project totalled \$2,729,885.

Management Discussion & Analysis

For the Year Ended March 31, 2012

SELECTED ANNUAL INFORMATION AND FINANCIAL OUTLOOK

The following table summarizes actual results for the five years ending fiscal 2012, our fiscal 2013 budget, and projected results for fiscals 2014 and 2015. We prepared the information below, including forecast information, using Canadian generally accepted accounting principles for fiscals 2008 through 2010, and using Canadian public sector accounting standards for fiscals 2011 through 2015.

(in millions \$)	AUDITED				AUDITED	BUDGET	PROJECTED	
	2008	2009	2010	2011	2012	2013	2014	2015
OPERATIONS								
Regulatory fees	32.5	30.5	30.8	33.5	34.9	36.8	37.2	37.6
Enforcement sanctions	0.9	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Investment income	1.4	1.3	0.3	1.0	1.6	2.2	1.0	1.0
	34.8	32.1	31.4	34.9	36.9	39.3	38.5	38.9
EXPENSES								
Salaries and benefits	21.7	22.6	23.1	23.5	25.9	26.7	27.2	27.7
Education	0.5	0.7	0.9	0.6	1.5	2.3	1.2	1.7
Other expenses	6.7	7.2	6.9	7.0	8.9	9.7	10.1	9.5
	28.9	30.4	30.8	31.2	36.2	38.7	38.5	38.9
Surplus	6.0	1.6	0.6	3.7	0.6	0.6	-	-
ACCUMULATED SURPLUSES								
Unrealized gains/(losses)	-	-	-	(0.3)	0.8	-	-	-
Undesignated surplus	7.2	9.1	10.3	14.4	16.1	18.4	15.9	15.4
Fee stabilization reserve	15.0	15.0	15.0	15.0	15.0	15.0	17.5	18.0
Education reserve	3.9	3.7	3.1	2.8	1.7	-	-	-
	26.1	27.8	28.3	32.0	33.6	33.4	33.4	33.4
OTHER INFORMATION								
Capital purchases	0.7	0.7	0.3	0.6	2.2	3.9	3.0	2.8
Debt	-	-	-	-	-	-	-	-

Read the BCSC Service Plan for more information about our Financial Outlook.

MD&A Supplement – Compensation Disclosure

For the Year Ended March 31, 2012

COMPENSATION STRUCTURE

We are accountable to the provincial legislature and the public through the Minister of Finance. Our compensation plan requires Public Sector Employers' Council approval.

The BCSC manages its compensation through effective internal governance policies (see page 8 for more information) and practices, including as follows:

- Our Audit and Human Resources committees comprise only independent commissioners appointed by the Lieutenant Governor-in-Council
- The Audit Committee oversees the BCSC's annual budget and the Human Resources Committee oversees the design and administration of BCSC performance management and compensation practices
- Semi-annually, the Human Resources Committee reviews the Chair's performance against her objectives. In consultation with the Chair, the Human Resources Committee reviews the performance of other executives and senior managers
- The Human Resources Committee recommends, for board approval, the Chair's incentive compensation for the preceding year and the Chair's salary for the ensuing year
- The Chair and Executive Director consult the Human Resources Committee on the incentive compensation and salaries of the other executives and senior managers

We compete with law and accounting firms, the securities industry, and other securities regulators to hire and retain professional staff with securities market expertise.

COMPENSATION PHILOSOPHY

Our goal is median compensation. We strive to offer remuneration comparable to that offered by competing organizations. To remain competitive, we conduct annual salary surveys and propose adjustments when surveyed position salaries are significantly below the median. Like most of our competitors, our compensation plan includes performance-based incentives.

INCENTIVE PRINCIPLES

Employees participate in an incentive plan, following these principles:

- Incentive awards depend on our ability to fund them
- Incentives are based on individual, divisional and commission performance

INCENTIVE TARGETS

Incentive targets vary depending on positions' potential impact on commission performance. Named officers (Chair, Vice Chair, Executive Director, Director of Enforcement, and the Director of Corporate Finance) have incentive targets ranging from 20 – 40%. In addition, a personal achievement factor, ranging from nil to 1.75, is applied. In some cases, total compensation is subject to government compensation maximums.

MD&A Supplement – Compensation Disclosure

For the Year Ended March 31, 2012

FISCAL 2012 COMPENSATION SUMMARY (IN DOLLARS, EXCEPT FOR MEETINGS ATTENDED)

POSITION	NAME	BASE	INCENTIVE	PENSION	OTHER ¹	2012	2011	2010	MEETINGS ATTENDED ²
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EXECUTIVE COMMISSIONERS

Chair	Brenda M. Leong	381,780	55,499	38,497	23,475	499,251	499,251	499,251	15
Vice Chair	Brent W. Aitken	325,451	104,157	–	11,165	440,773	443,631	464,688	14

SENIOR MANAGEMENT

Executive Director	Paul Bourque	257,500	67,686	25,723	49,091	400,000	343,496	N/A	N/A
Director of Corporate Finance	Martin D.C. Eady	197,351	–	19,538	429,715 ³	646,604	262,023	263,980	N/A
Director of Enforcement	Langley E. Evans	206,590	37,880	20,487	11,790	276,747	273,959	277,998	N/A

POSITION ⁴	NAME	FEES	OTHER ⁵	2012	2011	2010	MEETINGS ATTENDED
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INDEPENDENT COMMISSIONERS

Commissioner	Bradley Doney	58,569	2,681	61,250	54,298	67,204	14
Commissioner	Kenneth G. Hanna	57,250	90	57,340	58,643	61,450	15
Commissioner	Don Rowlett	55,800	88	55,888	49,413	67,259	14
Commissioner	David J. Smith	59,550	94	59,644	56,598	75,650	15
Commissioner	Shelley C. Williams	61,000	2,631	63,631	58,461	67,515	15
Commissioner	Suzanne K. Wiltshire	46,575	2,205	48,780	57,687	66,682	15

Our Independent Commissioner compensation policy is located on the BCSC website.

COMPENSATION CONSULTANTS

During the year, we hired Western Compensation & Benefits Consultants to perform a salary survey.

1. Other includes long-term disability plan premiums, Canada Pension Plan premiums, parking and transit, extended health and dental plan premiums, professional membership fees, Medical Services Plan premiums, Employment Insurance premiums, Worksafe premiums, group life insurance premiums, accommodation, fitness reimbursements, and imputed interest on interest-free computer purchase loans.

2. During fiscal 2012, the board scheduled, and held during the year, 12 regular monthly board meetings and three SRC meetings.

3. Includes severance and vacation paid out.

4. These are part-time positions.

5. Other includes Canada Pension Plan premiums and Worksafe premiums.

Management's responsibility and certification

For the Year Ended March 31, 2012

Management is responsible for ensuring that the financial statements and other financial information included in this annual report are complete and accurate. Management has prepared the financial statements according to Canadian public sector accounting standards.

We certify that:

- We oversaw the design of internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with PSAB
- We directed the evaluation of the effectiveness of these internal controls over financial reporting (ICFR) and we are not aware of any ICFR gap that has or is likely to materially affect our ICFR
- We have reviewed the financial statements and other information in this annual report (Report)
- We believe the Report reflects all material facts for the period it covers
- We do not believe the Report misstates any material fact

We believe that the financial statements and other financial information in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the British Columbia Securities Commission (the "BCSC") as of the dates and for the periods presented. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. We do not believe it is likely that any differences will be material.

The Board is responsible for establishing prudent rules of business and staff conduct. It is the Commission's policy to maintain the highest standards of ethics in all its activities. The Commission has an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards.

The Board is also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and has appointed an independent audit committee to oversee the financial reporting process. The committee members are independent commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

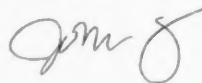
The internal auditors are charged with the responsibility of reviewing and evaluating the adequacy of and compliance with the Commission's internal control standards. The internal auditors report the results of their reviews and make recommendations both to management and the audit committee. The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly present the commission's financial position, results of operations and cash flows in accordance with Canadian public sector accounting principles. The internal and external auditors have full and open access to the audit committee, with and without the presence of management.

The audit committee has reviewed these financial statements and has recommended the Board approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.



BRENDA M. LEONG
Chair and Chief Executive Officer



JOHN R. HINZE, CA
Director, Corporate Services



INDEPENDENT AUDITOR'S REPORT

*To the Commissioners of the British Columbia Securities Commission and
To the Deputy Premier and Minister of Finance, Province of British Columbia*

Report on the Financial Statements

I have audited the accompanying financial statements of the British Columbia Securities Commission, which comprise the statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010, and the statements of operations and change in accumulated surpluses, remeasurement gains and losses, change in net financial assets and cash flows for the years ended March 31, 2012, and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines, is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2012, March 31, 2011, and April 1, 2010, and the results of its operations, changes in accumulated surpluses, changes in its remeasurement gains and losses, changes in net financial assets and, its cash flows for the years ended March 31, 2012, and March 31, 2011, in accordance with Canadian public sector accounting standards.

Victoria, British Columbia
May 10, 2012

John Doyle, MAcc, CA
Auditor General

STATEMENT OF FINANCIAL POSITION

(audited)

British Columbia Securities Commission

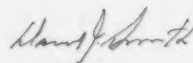
	MARCH 31, 2012	MARCH 31, 2011 (restated - note 2)	APRIL 1, 2010 (restated - note 2)
FINANCIAL ASSETS			
Cash (note 5)	\$ 6,548,751	\$ 16,455,733	\$ 11,058,703
Investments (note 6)	36,060,975	24,881,744	25,485,714
Amounts receivable (note 7)	528,362	562,610	734,239
	43,138,088	41,900,087	37,278,656
LIABILITIES			
Accounts payable and accrued liabilities	\$ 1,961,933	\$ 939,216	\$ 711,337
Accrued salaries	2,885,106	2,974,497	2,909,267
Deferred registration fee revenue	7,577,482	7,207,796	6,701,449
Employee leave liability (note 8)	844,993	846,615	853,821
Deferred rent	-	16,311	40,778
	13,269,514	11,984,435	11,216,652
NET FINANCIAL ASSETS	29,868,574	29,915,652	26,062,004
NON-FINANCIAL ASSETS			
Tangible capital assets (note 9)	\$ 3,236,381	\$ 1,717,328	\$ 1,905,771
Prepaid expenses (note 10)	496,586	323,921	367,613
	3,732,967	2,041,249	2,273,384
ACCUMULATED SURPLUS	33,601,541	31,956,901	28,335,388
Accumulated Surplus is comprised of:			
Accumulated surplus (note 11)	\$ 32,845,839	\$ 32,218,153	\$ 28,544,471
Accumulated remeasurement gains / (losses)	755,702	(261,252)	(209,083)
	33,601,541	31,956,901	28,335,388

Going concern basis of accounting (note 1)

Commitments and contingencies (note 17)

The accompanying notes are an integral part of these financial statements.

Approved by the Board:


BRENDA M. LEONG
Chair and Chief Executive Officer

DAVID J. SMITH
Chair, Audit Committee

STATEMENT OF OPERATIONS AND CHANGE IN ACCUMULATED SURPLUS

(audited)

British Columbia Securities Commission

FOR THE YEAR ENDED	MARCH 31, 2012		MARCH 31, 2011
	BUDGET (note 19)	ACTUAL	ACTUAL (restated - note 2)
REVENUES			
Regulatory fees			
Prospectus and other distributions	\$ 17,300,000	\$ 19,198,328	\$ 17,775,056
Registration	10,300,000	10,859,686	10,604,904
Financial filings	5,090,000	4,667,986	4,860,902
Exemptive orders and other	278,000	170,652	231,529
Enforcement sanctions (note 12)	300,000	344,935	390,200
Investment income (note 13)	1,340,000	1,545,189	1,288,825
Realized gains (losses) on investments (note 13)	-	85,091	(262,010)
	<u>\$ 34,608,000</u>	<u>\$ 36,871,867</u>	<u>\$ 34,889,406</u>
EXPENSES			
Regulatory operations (note 14)	\$ 34,278,992	\$ 36,244,181	\$ 31,215,724
Surplus, for the year	\$ 329,008	\$ 627,686	\$ 3,673,682
Accumulated surplus, beginning of year		\$ 32,218,153	\$ 28,544,471
Accumulated surplus, end of year		<u>\$ 32,845,839</u>	<u>\$ 32,218,153</u>

Going concern basis of accounting (note 1)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

(audited)

British Columbia Securities Commission

FOR THE YEAR ENDED	MARCH 31, 2012	MARCH 31, 2011
ACCUMULATED REMEASUREMENT (LOSSES), BEGINNING OF YEAR	\$ (261,252)	\$ (209,083)
Unrealized gain (loss) on investments (note 13)	1,102,045	(314,179)
Realized (gain) loss on investments, reclassified to operations (note 13)	(85,091)	262,010
ACCUMULATED REMEASUREMENT GAINS (LOSSES), END OF YEAR	\$ 755,702	\$ (261,252)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

(audited)

British Columbia Securities Commission

FOR THE YEAR ENDED	MARCH 31, 2012		MARCH 31, 2011
	BUDGET (note 19)	ACTUAL	ACTUAL (restated - note 2)
Surplus, for the year	\$ 329,008	\$ 627,686	\$ 3,673,682
(Acquisition) of tangible capital assets	\$ (1,856,847)	\$ (2,171,469)	\$ (597,787)
Amortization of tangible capital assets	700,000	652,416	786,230
	\$ (1,156,847)	\$ (1,519,053)	\$ 188,443
(Acquisition) of prepaid expense		\$ (658,279)	\$ (417,735)
Use of prepaid expense		485,614	461,427
		\$ (172,665)	\$ 43,692
Effect of net remeasurement gains (losses) for the year		\$ 1,016,954	\$ (52,169)
Increase (decrease) in net financial assets		\$ (47,078)	\$ 3,853,648
Net financial assets, beginning of year		29,915,652	26,062,004
Net financial assets, end of year		\$ 29,868,574	\$ 29,915,652

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

(audited)

British Columbia Securities Commission

FOR THE YEAR ENDED	MARCH 31, 2012	MARCH 31, 2011 (restated - note 2)
OPERATING TRANSACTIONS		
Cash received from:		
Fees	\$ 35,475,627	\$ 34,038,321
Enforcement sanctions	333,433	414,798
Interest	68,003	78,616
	\$ 35,877,063	\$ 34,531,735
Cash paid for:		
Cash paid to and on behalf of employees	\$ (26,016,465)	\$ (23,304,777)
Cash paid to suppliers and others	(8,996,111)	(6,732,141)
	\$ (35,012,576)	\$ (30,036,918)
Cash provided by operating transactions	\$ 864,487	\$ 4,494,817
CAPITAL TRANSACTIONS		
Cash used to acquire tangible capital assets	\$ (2,171,469)	\$ (597,787)
INVESTING TRANSACTIONS		
Proceeds from disposals of investments	\$ 27,817,131	\$ 23,589,765
Investments	(36,417,131)	(22,089,765)
	\$ (8,600,000)	\$ 1,500,000
(Decrease)/increase in cash	\$ (9,906,982)	\$ 5,397,030
Cash, beginning of year	\$ 16,455,733	\$ 11,058,703
Cash, end of year	\$ 6,548,751	\$ 16,455,733

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and March 31, 2011 (audited)
British Columbia Securities Commission

1. NATURE OF OPERATIONS AND GOING CONCERN

The British Columbia Securities Commission (BCSC) is a Crown corporation created by the Province of British Columbia on April 1, 1995. We are responsible for the administration of the *Securities Act*. As a Crown corporation, the BCSC is exempt from income taxes. We pay Harmonized Sales Tax (HST) and receive a 100% rebate.

We have prepared these financial statements on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. Our government continues to support the concept of a national regulator. We expect the BCSC to remain a going concern while participating governments consider and perhaps implement a different regulatory structure.

2. CONVERSION TO PUBLIC SECTOR ACCOUNTING STANDARDS

Effective April 1, 2010, BCSC adopted Canadian public sector accounting standards (PSAS) as issued by the Public Sector Accounting Board. These financial statements are the first annual financial statements for which we have applied PSAS.

We applied accounting changes retroactively to the transition date, which resulted in the reclassification of cash and investments, the reclassification of intangible capital assets, the amalgamation of designated accumulated surpluses, and the reclassification of \$209,083 in unrealized investment losses to a new category of accumulated surplus called accumulated remeasurement gains / (losses). We implemented the following changes to comply with PSAS:

STATEMENT OF FINANCIAL POSITION

RETROACTIVE CHANGES	PREVIOUSLY STATED	ADJUSTMENT EFFECTIVE	RESTATED
	MARCH 31, 2010	APRIL 1, 2010	APRIL 1, 2010
CASH AND INVESTMENTS			
Cash	\$ -	\$ 11,058,703	\$ 11,058,703
Cash and cash equivalents	18,490,586	(18,490,586)	-
Investments	-	25,485,714	25,485,714
Investments held for designated purposes	18,053,831	(18,053,831)	-
CAPITAL ASSETS			
Tangible capital assets	\$ 1,588,951	\$ 316,820	\$ 1,905,771
Intangible capital assets	316,820	(316,820)	-
ACCUMULATED SURPLUSES			
General/accumulated operating surplus	\$ 10,281,557	\$ 18,262,914	\$ 28,544,471
Fee stabilization reserve	15,000,000	(15,000,000)	-
Education reserve	3,053,831	(3,053,831)	-
Accumulated remeasurement gains/(losses)	-	(209,083)	(209,083)

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and March 31, 2011 (audited)
British Columbia Securities Commission

We elected to adopt PS 3450 Financial Instruments effective April 1, 2010 to enable us to continue accounting for investments using fair value.

3. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements in accordance with generally accepted accounting principles for provincial reporting entities established by the Canadian Public Sector Accounting Board. Significant accounting policies followed in the preparation of these financial statements are:

a) Financial instruments

Our financial instruments include cash, investments, amounts receivable, accounts payable and accrued liabilities, accrued salaries and employee leave liability. Under the *BC Securities Act*, we must invest any money that we receive, but do not immediately need, in investment pools that the British Columbia Investment Management Corporation (bcIMC), a BC government organization, administers.

We account for all of our financial instruments on a fair value basis, as follows:

- We record cash and investments at fair value (fair value measurement hierarchy level one – quoted market prices). We consider the fair value of our investments to be market value because of their highly liquid nature.
- We record all other financial instruments at cost (fair value measurement hierarchy level three – not based on observable market data), which approximates fair value.

We recognize all realized gains and losses in net income for the related period in which they arise. We record any unrealized gains and losses separately in the statement of accumulated remeasurement gains / (losses). Any investment earnings are reinvested in the portfolio and returns adjust the carrying value of the units we own.

b) Tangible Capital assets

We record our tangible capital assets at cost. We depreciate them using the straight-line method over their useful lives.

We estimate the useful lives of our tangible capital assets to be as follows:

- Information technology – four years
- Leasehold improvements – the remaining lease term to November 30, 2021
- Office furniture and equipment – ten years

c) Prepaid expenses

Prepaid expenses include calendar year registration processing fees and prepaid information technology maintenance contracts and are charged to expense over the periods of expected benefit.

d) Revenue Recognition

We accrue prospectus and other statutory filing fees when filings are made and collectibility is assured. The amounts due and their collectibility are normally determined simultaneously, as most filings are paid for immediately.

Registration fees are paid to us in advance. We defer registration fees and recognize them in revenue over the calendar year to which they relate.

We recognize enforcement sanctions when we determine they are collectible.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and March 31, 2011 (audited)
British Columbia Securities Commission

e) Expenses

We report expenses on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

f) Measurement Uncertainty

Canadian public sector accounting standards require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements, management has estimated the:

- portion of amounts receivable that we will collect
- useful lives of tangible capital assets
- value of the employee leave liability

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements.

Actual results may differ from these estimates.

4. FINANCIAL INSTRUMENTS

Our financial instruments include cash, investments, amounts receivable, accounts payable and accrued liabilities, accrued salaries and employee leave liability.

Cash is demand deposits held at a Schedule 1 Canadian chartered bank.

Our investments are units of bclMC investment pools. Our investment policy is to buy units of the following bclMC pooled funds:

- Canadian Money Market Fund (ST1)
Canadian money market investments with original maturities of less than 45 days
- Canadian Money Market Fund (ST2)
Canadian money market investments with original maturities of less than 15 months (current investment duration is 0.4 of a year)
- Short Term Bond Fund
Canadian federal and provincial government bonds and Canadian dollar fixed income and insured or guaranteed by sovereign governments, and supranational debt securities, all maturing within five years
- Canadian Universe Bond Fund
Canadian federal and provincial government bonds, Canadian dollar fixed income securities insured or guaranteed by sovereign governments, and investment-grade corporate debt securities, all maturing within 30 years

Our use of financial instruments to invest exposes us to the following risks:

- *Credit risk*—the possibility that an underlying issuer will default, by failing to repay principal and interest in a timely manner
- *Liquidity risk*—the possibility that we will not be able to sell our investments when we want
- *Market risk*—the possibility that our investments may decline over time because of economic changes or other events that affect large portions of the market
- *Interest rate risk*—the possibility that the value of our investments and the related investment returns will fluctuate over time because of interest rate changes

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and March 31, 2011 (audited)
British Columbia Securities Commission

In management's opinion, our investments do not expose the BCSC to significant credit or material market risk because we invest in liquid, high quality money market instruments, government securities and investment-grade corporate debt securities. Liquidity risk is low because our investments are in pooled fund units redeemable within two weeks, without penalty. The underlying assets in the pool are also highly liquid.

Our investments are exposed to interest rate risk. The fair value of our investments in longer-term fixed rate securities fluctuates significantly with changes in interest rates. Based on the March 31, 2012 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately \$1.9 million. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would increase after an interest rate increase. We expect interest rates to increase modestly over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bclMC. Current investment durations for the Short Term Bond Fund and the Canadian Universe Bond Fund are 2.7 years and 6.9 years, respectively.

In management's opinion, amounts receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability do not expose us to significant financial risk because of their small size and short-term nature.

5. CASH

Cash is demand deposits, as follows:

	MARCH 31, 2012		MARCH 31, 2011		APRIL 1, 2010	
	MARKET VALUE	COST	MARKET VALUE	COST	MARKET VALUE	COST
Cash	\$ 6,548,751	\$ 6,548,751	\$ 16,455,733	\$ 16,455,733	\$ 11,058,703	\$ 11,058,703

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and March 31, 2011 (audited)
British Columbia Securities Commission

6. INVESTMENTS

Investments are carried at fair value, and consist of:

BCIMC POOLED FUNDS	MARCH 31, 2012		MARCH 31, 2011		APRIL 1, 2010	
	MARKET VALUE	COST	MARKET VALUE	COST	MARKET VALUE	COST
Short Term Bond Fund	\$ 12,971,511	\$ 12,976,668	\$ 3,285,236	\$ 3,285,732	\$ 21,969,868	\$ 22,176,382
Canadian Universe						
Bond Fund	23,089,464	22,328,605	21,596,508	21,857,264	-	-
Pooled Canadian Money						
Market Fund ST2	-	-	-	-	3,515,846	3,518,415
	<u>\$ 36,060,975</u>	<u>\$ 35,305,273</u>	<u>\$ 24,881,744</u>	<u>\$ 25,142,996</u>	<u>\$ 25,485,714</u>	<u>\$ 25,694,797</u>

Investment distributions are reinvested in the portfolio and adjust the carrying value of the units we own.

7. AMOUNTS RECEIVABLE

Amounts receivable consist of:

FOR THE YEAR ENDED	MARCH 31, 2012	MARCH 31, 2011	APRIL 1, 2010
Enforcement sanctions (note 12)	\$ 95,284	\$ 83,782	\$ 126,380
Late insider report filing fees	31,600	250,000	261,360
Due from CSTO (a)	118,380	106,637	299,679
National project recoveries	-	-	5,216
Harmonized sales tax (HST)	250,157	89,482	-
Employee advances and other	32,941	32,709	41,604
	<u>\$ 528,362</u>	<u>\$ 562,610</u>	<u>\$ 734,239</u>

(a) The BCSC seconded employees to, and provides technology and accounting support to, the Canadian Securities Regulatory Regime Transition Office (CSTO) on a cost recovery basis. The balance reflects cost recoveries due from the CSTO as at March 31, 2012.

8. EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and March 31, 2011 (audited)
British Columbia Securities Commission

9. CAPITAL ASSETS

Capital assets consist of:

	MARCH 31, 2012			
	INFORMATION TECHNOLOGY	LEASEHOLD IMPROVEMENTS	OFFICE FURNITURE AND EQUIPMENT	TOTAL
COST				
Opening balance	\$ 2,491,238	\$ 4,115,892	\$ 2,521,167	\$ 9,128,297
Additions	1,617,072	492,799	61,598	2,171,469
Disposals	88,523	—	182,706	271,229
Write-downs	—	—	—	—
Closing balance	4,019,787	4,608,691	2,400,059	11,028,537
ACCUMULATED AMORTIZATION				
Opening balance	1,454,298	3,660,780	2,295,891	7,410,969
Amortization	547,116	59,026	46,274	652,416
Disposals	88,523	—	182,706	271,229
Write-downs	—	—	—	—
Closing balance	1,912,891	3,719,806	2,159,459	7,792,156
Net book value	\$ 2,106,896	\$ 888,885	\$ 240,600	\$ 3,236,381

	MARCH 31, 2011			
	INFORMATION TECHNOLOGY	LEASEHOLD IMPROVEMENTS	OFFICE FURNITURE AND EQUIPMENT	TOTAL
COST				
Opening balance	\$ 1,921,022	\$ 4,115,892	\$ 2,493,754	\$ 8,530,668
Additions	570,216	—	27,413	597,629
Disposals	—	—	—	—
Write-downs	—	—	—	—
Closing balance	2,491,238	4,115,892	2,521,167	9,128,297
ACCUMULATED AMORTIZATION				
Opening balance	1,065,695	3,446,472	2,112,730	6,624,897
Amortization	388,603	214,308	183,161	786,072
Disposals	—	—	—	—
Closing balance	1,454,298	3,660,780	2,295,891	7,410,969
Net book value	\$ 1,036,940	\$ 455,112	\$ 225,276	\$ 1,717,328

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and March 31, 2011 (audited)
British Columbia Securities Commission

10. PREPAID EXPENSES

Prepaid expenses consist of:

FOR THE YEAR ENDED	MARCH 31, 2012	MARCH 31, 2011	APRIL 1, 2010
IIROC registration processing fees	\$ 287,223	\$ 278,212	\$ 270,621
Information technology maintenance contracts	179,885	45,709	96,992
Staff training and development	29,478	—	—
	<u>\$ 496,586</u>	<u>\$ 323,921</u>	<u>\$ 367,613</u>

11. ACCUMULATED SURPLUS

We have internally designated components of accumulated operating surplus, as follows:

	GENERAL	FEE STABILIZATION (a)	EDUCATION (b)	TOTAL
BALANCE, MARCH 31, 2011	\$ 14,383,798	\$ 15,000,000	\$ 2,834,355	\$ 32,218,153
Additions and appropriations	282,751	—	344,935	627,686
Investment income allocation	(18,782)	—	18,782	—
Disbursements	1,451,642	—	(1,451,642)	—
BALANCE, MARCH 31, 2012	<u>\$ 16,099,409</u>	<u>\$ 15,000,000</u>	<u>\$ 1,746,430</u>	<u>\$ 32,845,839</u>

	GENERAL	FEE STABILIZATION (a)	EDUCATION (b)	TOTAL
BALANCE, MARCH 31, 2010	\$ 10,490,640	\$ 15,000,000	\$ 3,053,831	\$ 28,544,471
Additions and appropriations	3,283,482	—	390,200	3,673,682
Investment income allocation	(26,357)	—	26,357	—
Disbursements	636,033	—	(636,033)	—
BALANCE, MARCH 31, 2011	<u>\$ 14,383,798</u>	<u>\$ 15,000,000</u>	<u>\$ 2,834,355</u>	<u>\$ 32,218,153</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and March 31, 2011 (audited)
British Columbia Securities Commission

a) Fee stabilization reserve

We designate amounts from our operating surplus to the fee stabilization reserve so temporary revenue reductions will not immediately impair our ability to operate, or require immediate fee increases.

b) Education reserve

We order administrative penalties and disgorgements under the *Securities Act*. We also negotiate settlement amounts. We designate revenue from penalties, settlements, and unclaimed disgorgements to our Education reserve, which we spend only to educate securities market participants and the public about investing, financial matters or the operation or regulation of securities markets. We mix Education reserve funds with our other funds for investment purposes, so we also designate a portion of our investment income to the Education reserve.

12. ENFORCEMENT SANCTIONS

Enforcement sanctions include administrative penalties, settlements and unclaimed disgorgements. Revenues depend on the timing of enforcement actions completed during the year and on our ability to collect assessed amounts.

We assessed enforcement sanctions of \$55.9 million (fiscal 2011 - \$57.0 million) during the period, of which we did not recognize \$55.7 million (fiscal 2011 - \$56.6 million) as revenue because we do not expect to receive payment.

Collecting enforcement sanctions can be difficult because respondents often have limited assets, poor credit or have left British Columbia. We pursue outstanding amounts as appropriate, to maximize sanction receipts, net of collection costs.

13. INVESTMENT INCOME

Financial and real returns related to financial assets are as follows:

	FOR THE YEAR ENDED MARCH 31, 2012					
	AVERAGE BALANCE	INVESTMENT INCOME	REALIZED GAINS (LOSSES)	TOTAL INCOME	UNREALIZED GAINS (LOSSES)	ANNUALIZED RETURN
Cash	\$ 5,580,351	\$ 68,003	\$ -	\$ 68,003	\$ -	1.2%
Pooled Canadian						
Money Market Fund	2,371,410	30,036	(952)	29,084	-	1.2%
Short Term Bond Fund	8,354,312	261,852	-	261,852	-	3.1%
Canadian Universe Bond Fund	23,063,062	1,185,298	86,043	1,271,341	1,102,045	10.3%
	\$ 39,369,135	\$ 1,545,189	\$ 85,091	\$ 1,630,280	\$ 1,102,045	6.9%

	FOR THE YEAR ENDED MARCH 31, 2011					
	AVERAGE BALANCE	INVESTMENT INCOME	REALIZED GAINS (LOSSES)	TOTAL INCOME	UNREALIZED GAINS (LOSSES)	ANNUALIZED RETURN
Cash	\$ 10,442,490	\$ 78,616	\$ -	\$ 78,616	\$ -	0.8%
Pooled Canadian						
Money Market Fund	3,347,723	29,628	-	29,628	2,073	0.9%
Short Term Bond Fund	6,790,136	175,393	(262,010)	(86,617)	(55,496)	-2.1%
Canadian Universe Bond Fund	15,058,913	1,005,188	-	1,005,188	(260,756)	4.9%
	\$ 35,639,262	\$ 1,288,825	\$ (262,010)	\$ 1,026,815	\$ (314,179)	2.0%

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and March 31, 2011 (audited)
British Columbia Securities Commission

14. EXPENSES BY OBJECT

Expenses by object are as follows:

	BUDGET 2012	FOR THE YEAR ENDED MARCH 31, 2012	FOR THE YEAR ENDED MARCH 31, 2011
EXPENSES			
Salaries and benefits	\$ 25,145,395	\$ 25,913,577	\$ 23,547,795
Professional services	2,528,921	3,324,940	2,051,160
Occupancy	2,270,716	2,271,689	1,953,892
Depreciation	700,000	652,416	786,230
Information management	820,185	976,945	788,023
Education disbursements (note 11)	975,000	1,451,642	636,033
External communication programs	388,350	303,506	209,418
Administration	467,288	478,082	410,048
Staff training	533,940	478,475	417,876
Business travel	320,926	271,589	301,545
Telecommunications	128,271	121,320	113,704
Regulatory operations	\$ 34,278,992	\$ 36,244,181	\$ 31,215,724

15. RELATED PARTY TRANSACTIONS

We are related through common ownership to all BC provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

16. POST-RETIREMENT EMPLOYEE BENEFITS

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan. The plan is contributory, and its basic benefits are defined. The plan has about 57,000 active members and approximately 36,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

An actuarial valuation of the plan performed every three years assesses the plan's financial position. The latest valuation, as at March 31, 2011, indicated a \$275 million deficit for basic pension benefits. In order to fund the liability, both employee and employer contribution rates increased, effective April 1, 2012. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis.

The plan trustees monitor the impact of the financial environment on plan health. Plan surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged \$1.9 million to expense for employer contributions during the period (fiscal 2011 - \$1.7 million).

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and March 31, 2011 (audited)
British Columbia Securities Commission

17. COMMITMENTS AND CONTINGENCIES

a) Office lease

Our lease ends November 30, 2021. Rent over the lease term is as follows:

December 1, 2011 - November 30, 2013	\$1,390,000 per year
December 1, 2013 - November 30, 2015	\$1,455,000 per year
December 1, 2015 - November 30, 2017	\$1,540,000 per year
December 1, 2017 - November 30, 2019	\$1,620,000 per year
December 1, 2019 - November 30, 2021	\$1,700,000 per year

We also pay our share of building operating and maintenance costs.

b) National electronic filing systems and operating agreements

Under various agreements with the Canadian Securities Administrators (CSA), CDS Inc. (CDS) operates three national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 90% of our fee revenue through SEDAR and NRD. Should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission (OSC), and l'Autorité des marchés financiers, together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Industry Regulatory Organization of Canada Inc. Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues (shortfall). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs (surplus) to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators share actual versus budgeted system operating cost (expense) variances.

The OSC is holding \$80.5 million (March 31, 2011 - \$64.9 million) in trust, on behalf of the CSA Principal Administrators. The funds are the national filing systems' accumulated surpluses and expenses variances and interest earned on those amounts to March 31, 2012. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users.

In fiscal 2010, the CSA began a national project to rebid operation of, and then redevelop, the national systems. As at March 31, 2012, expenses related to the project totalled \$2,729,885.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and March 31, 2011 (audited)
British Columbia Securities Commission

c) Legal actions

We are involved in legal actions arising from the operation of our business. The outcome and ultimate disposition of these actions are not yet determinable. We do not expect the outcome of any of these proceedings, individually or in total, to have a material impact on our financial position.

18. COMPARATIVE FIGURES

Certain comparative figures, as at March 31, 2011, and for the year ended March 31, 2011, have been restated to conform to current year's presentation.

19. BUDGETED FIGURES

Budgeted figures are for comparison purposes and flow from the BCSC fiscal 2012 Service Plan.



Enforcement Report

Enforcement Report

Market misconduct, including investment fraud, poses a significant risk to the integrity of BC's capital markets. A credible enforcement program is a powerful tool to ensure compliance and deter inappropriate and illegal market conduct, and sends a strong message to the market and public.





Effective enforcement requires knowledgeable professionals who can detect and respond to misconduct that affects local and national capital markets

PROTECTING INVESTORS AND MARKET INTEGRITY

Our Enforcement division utilizes all of the regulatory tools at its disposal to protect investors from falling victim to fraud or other abusive activity. We aim to detect misconduct early, disrupt and stop the activity, and then pursue it vigorously to deter future harm to investors and the capital markets.

BCSC staff investigate complaints of market misconduct, and the executive director can take early, decisive action by issuing temporary enforcement orders to intervene and stop ongoing misconduct.

After we detect misconduct, there are two different paths for investigations to take.

One option is for the executive director to bring cases before BCSC panels at an administrative hearing. BCSC panels have broad powers under the *Securities Act* to take action against misconduct, including ordering market bans, administrative

penalties, and the disgorgement of ill-gotten gains. BCSC decisions and settlements act as deterrents to those who seek to harm investors and our capital markets.

Alternatively, the BCSC's criminal investigation team can investigate and refer cases to Crown Counsel for prosecution. The courts can then impose penalties, including jail terms and fines, which can act as deterrents for those for whom administrative penalties are not a deterrent.

COLLABORATIVE ENFORCEMENT

We work with securities regulators in other jurisdictions to reciprocate market bans, share information, and conduct investigations. During the year, we received 18 formal requests for assistance from US federal and state authorities, including the US Securities and Exchange Commission (SEC) and the US Commodity Futures Trading Commission (CFTC).

We extended 16 formal requests for assistance to the SEC and CFTC, and 40 formal requests to the UK Financial Services Authority and other foreign authorities. We also assisted the Hong Kong Securities and Futures Commission with seven registration reviews.

With respect to allegations of criminal misconduct, our criminal investigation team conducted the investigations required and prepared reports for Crown Counsel. In British Columbia, the decision about whether or not to lay charges, rests solely with Crown Counsel. We also work with other enforcement agencies and financial institutions to raise awareness of investment fraud. Our work aims to encourage early reporting of investment fraud and deter misconduct that can harm investors and our capital markets.

CROSS-DIVISIONAL INITIATIVES

The Enforcement division works closely with staff in the Corporate Finance division and Capital Markets Regulation division. The Compliance branch in the Corporate Finance division referred 13 cases to the Enforcement division this year. Staff in the Capital Markets Regulation division referred 11 cases to Enforcement. Of the 24 cases referred to Enforcement in fiscal 2011, two resulted in notices of hearing, two led to settlements, and five are still being investigated.

Staff in both Corporate Finance and Capital Markets Regulation can also issue their own production orders and, in the case of Corporate Finance, issue halt trade orders and cease trade orders.

FISCAL YEAR	2010	2011	2012
Production orders – Compliance	47	122	222
Halt trade orders – Compliance	3	6	3
Cease trade orders – Compliance	102	52	34

Production orders are up over 80%. This increase is due primarily to the Capital Markets Regulation division sending out surveys and production orders to 95 unregistered sellers and finders. Both halt trade orders and cease trade orders are down significantly. This decrease is due to staff finding it increasingly difficult to identify non-compliant OTC companies, who have been the focus of compliance halt trade orders and cease trade orders over the past few years. It appears that our program has been effective in bringing many of these companies into compliance.

Awareness and education can help detect, stop, and prevent investment fraud. The Enforcement division continues to play an active role in the BCSC's InvestRight program. Enforcement staff participate in delivering investor fraud courses to police and take part in our province-wide education seminars. They also work with Communications & Education staff to issue public warnings through InvestRight *Investor Watches* and *Investor Alerts* about possible unsuitable investments or fraudulent investment schemes. BCSC staff also communicate through the news media, social media websites, and face-to-face seminars to increase fraud awareness and reporting.

How the BCSC handles enforcement cases

The enforcement process starts with a

- complaint from the public or securities industry participant
- referral from another agency
- referral from BCSC staff

The BCSC's case assessment branch reviews complaints, or referrals, and can then

- refer it to another agency, including a law enforcement unit
- refer it to the Communications & Education division to issue an Investor Alert
- refer it to our regulatory investigation team, criminal investigation team, or litigation branch
- refer it to the Capital Markets Regulation division or Corporate Finance division, if it involves complaints against a registrant or public company
- close the file, if there is insufficient evidence to proceed

After investigating a case, the regulatory investigation team can

- refer it to the litigation branch
- close the file, if there is insufficient evidence to proceed

The litigation branch works with the case assessment branch, the regulatory investigation team, Capital Markets Regulation division, or Corporate Finance division, and can

- intervene using a temporary order, when appropriate
- pursue it through a hearing before a panel of BCSC commissioners
- negotiate a settlement

After investigating a case, the criminal investigation team can

- refer it to Crown Counsel, if the evidence supports a criminal charge
- refer it to our regulatory investigation team, if the evidence does not support a criminal charge

Enforcement activity April 1, 2011 – March 31, 2012

We handled 163 new cases last year. Many of these represented multiple violations including:

71 related to unregistered activity	20 related to insider trading
53 related to illegal sales of securities	25 involved market manipulation allegations
28 related to fraud	5 breaches of order
10 related to registrant misconduct	11 disclosure violations
63 related to director and officer misconduct	35 involved civil disputes outside our mandate
49 involved misrepresentations	

ENFORCEMENT ACTIVITY FOR LAST THREE YEARS¹

FISCAL YEAR	2010	2011	2012
New enforcement cases handled	177	141	163
Production orders – Enforcement	338	429	305
Freeze orders – Enforcement	6	7	14
Assets frozen (at year-end) ²	Unavailable	\$ 8.37 million ³	\$ 15.48 million ³
Assets returned to investors, provided to Civil Forfeiture Office, to receiver or to bankruptcy trustee	\$ 3.28 million ⁴	\$ 3.47 million ⁴	\$ 1.35 million ⁴

1. The number of new cases, the amount of assets frozen and the amount of assets returned to investors or provided to other agencies for investors depend on a variety of external factors, and thus vary significantly from year to year.

2. This was a new measure in fiscal 2011. We did not record the amount of money frozen at the end of fiscal 2010.

3. This is an estimated value for assets frozen at year-end. This money came from five cases for fiscal 2011, and from four cases in fiscal 2012. Not all assets were in the form of cash, so the actual value of frozen assets may differ because of market conditions and other valuation factors.

4. The amounts for fiscal 2010 came from three cases, for fiscal 2011 from nine cases, and for fiscal 2012 from three cases.

The BCSC began fiscal 2012 with 21 notices of hearing outstanding. At year-end, there were 15 notices of hearing outstanding.

Here is the hearing-related activity for each of the last three years:

FISCAL YEAR	2010	2011	2012
New Notices of hearing	10	21	13 ¹
Temporary orders	7	3	2
Liability decisions	2	3	5
Hearing sanction decisions	4	7	14
Reciprocal orders	33	37	17
Settlement agreements	14	13	9

1. Nine notices of hearing were issued in the fourth quarter of fiscal 2011. This increase was the result of process changes. Notices of hearing in fiscal 2011 reflects an increase over historical levels but at a level more consistent with sustainable production.

ENFORCEMENT HIGHLIGHTS

We post all notices of hearing, decisions, and settlements in the Enforcement section of our website, where they are searchable by name and keyword. The CSA 2011 Enforcement Report discusses two BCSC hearing decisions. You can link to the report here or obtain it on the BCSC website (*News & Publications; Publications; Enforcement*).

Investor Alerts and temporary orders

We use Investor Alerts and temporary orders to try to disrupt, stop, and prevent illegal investment activities.

Temporary order – Gibraltar Global Securities Inc.

In August 2011, the BCSC froze approximately \$2.2 million in Gibraltar's accounts at a Vancouver brokerage firm.

In September 2011, the BCSC's executive director issued a notice of hearing against Gibraltar Global Securities Inc., a company registered in the Bahamas that provides offshore securities brokerage, investment management, and advisory services. The notice of hearing alleges that Gibraltar carried out trades and provided securities advice on behalf of BC residents, without being registered to do so.

The notice of hearing also alleged that the company had refused to provide information regarding its BC clients to the BCSC and the Securities Commission of the Bahamas (SCB). Through assistance from the SCB, the BCSC learned about 20 BC residents with accounts at Gibraltar. Of those, one had been convicted of wire fraud and securities fraud in the United States, another was the subject of a BCSC hearing for which the decision is pending, and a third was the subject of a BCSC investigation for market manipulation that involved a BC public company depositing securities in a Gibraltar account.

In May 2012, a BCSC panel found that Gibraltar carried out trades and provided securities advice on behalf of BC residents without being registered to do so. The panel also found that Gibraltar's refusal to provide BCSC staff with the names, account information, and account statements for all BC residents who have beneficially held accounts with Gibraltar made the company "unsuitable to engage in securities related activities in, or connected with, British Columbia".

The panel ordered Gibraltar to cease trading in, and prohibited Gibraltar from purchasing, any securities until the BCSC issues

its sanction decision. The panel also refused to revoke a freeze order that the BCSC issued in August 2011 against Gibraltar's accounts at Global Securities Corporation, a Vancouver brokerage firm. This order froze approximately \$2.2 million.

A BCSC panel will issue sanctions at a later date.

Temporary order – High Profit Investments

After becoming aware of High Profit Investments Ltd. (HPI) in July 2011, BCSC staff placed HPI on the BCSC's Investment Caution List and alerted investors through the InvestRight *Let's Talk About Investing* blog.

HPI advertised its investment scheme in the Financial Services section of Vancouver's "craigslist" website in May of 2011, and promised investors financial returns of ten times the initial amount of their investment within 14 days through foreign exchange trading. In September 2011, a website for Fortune Investment Group (FIG) appeared on the internet promoting the same scheme. The FIG website was identical to HPI's website, except for small differences.

Both websites contained numerous false statements, such as non-existent New York and Texas business addresses, and false claims that HPI and FIG were registered companies and licensed brokers in those two states.

On December 13, 2011, the BCSC's executive director issued a temporary order banning all BC trading in securities of HPI and FIG until a hearing was held. As well, HPI, FIG, Martin Butcher and Robert Meeker were banned from engaging in investor relations activities. After a hearing on December 22, 2011, a BCSC panel made these orders permanent, thus permanently banning HPI, FIG, Butcher and Meeker from BC's capital markets.

Investor Alert, Notice of Hearing and Settlement – Samji and Patel

After a tip, the BCSC issued an *Investor Alert* on February 14, 2012, warning investors that the BCSC was investigating Rashida Samji and Arvindbhai B. Patel (also known as Arvind Patel). The *Investor Alert* advised investors that the BCSC was looking at transactions related to an investment sold by Samji and was also examining Patel's role in the sale of the investment. The investment offered a 12% annual return and funds were purportedly held in a trust account administered by Samji.

On January 31, 2012 the BCSC issued an order freezing certain bank and securities accounts that Samji, Samji's holding company, or Patel held. The BCSC also filed liens against real estate properties owned by Patel. On February 21, 2012, the

BCSC revoked a freeze order against Patel's chequing account but imposed new freeze orders on his retirement savings and brokerage accounts. Patel has applied to the BCSC to vary these orders and a hearing is pending.

On April 3, 2012, the BCSC applied to the BC Supreme Court for a receiver. The court appointed a receiver to manage, for the benefit of investors, some of Samji and Patel's property that the BCSC froze.

Also on April 3, 2012, Patel entered into a settlement agreement with the BCSC's executive director. In the settlement agreement, Patel admitted that he made statements to investors that he ought to have known were false. He also admitted that he knew his clients were relying on him to provide investment and financial guidance, and yet he introduced them to this investment with little or no due diligence of his own.

Under the settlement agreement, Patel was permanently banned from BC's capital markets.

Also in April 2012, the BCSC's executive director issued a notice of hearing against Samji. The notice of hearing alleges that Samji committed a fraud that raised about \$83 million from 218 investors. The notice of hearing also alleges that Samji made a number of false statements, falsified documents, and created a false land title search as part of a fraudulent mortgage.

The allegations in the notice of hearing against Samji have not been proven.

Criminal cases

The BCSC implemented a criminal investigation team in 2007. Each investigator is a provincial special constable. The team's goal is to investigate and recommend *Criminal Code* and *Securities Act* charges against individuals for whom administrative sanctions alone are not considered a deterrent. Since 2007, 22 individuals have been charged.

In the past year, the team referred eight cases to Crown Counsel. Of those cases, four have received charge approval, with charges pending in the other cases.

Key to the success of the team is the good working relationship with Crown Counsel and with law enforcement agencies.

Malcolm Cameron Boyd Stevenson

In June 2011, Stevenson was convicted of three charges under the *Securities Act* and sentenced to five months in jail.

In November 2006, the executive director issued a notice of hearing and temporary order against Stevenson and the investments he and others were promoting for "International Fiduciary Corp." (IFC). Among other things, the temporary order banned all BC trading of the securities of IFC and banned Stevenson from conducting any investor relations activities on behalf of IFC.

After the temporary order was issued, in late 2006 and early 2007, BCSC investigators operating covertly witnessed Stevenson soliciting further investment in IFC. This breach resulted in the criminal charges and subsequent 2011 conviction.

Settlements

In a settlement agreement, the person subject to the allegations admits to misconduct and consents to an enforcement order, a financial payment, or another appropriate remedy.

Karnjit Singh Bahd

In May 2011, Karnjit Singh Bahd admitted that he lied in two separate interviews with BCSC investigators about his involvement with a US OTC company. The interviews were a part of an ongoing BCSC investigation into suspicious trading in the shares of Sungro Minerals Inc., a BC public company quoted on the US OTC markets.

Bahd told BCSC investigators, among other things, that he did not give nine seed shareholders money to pay for their shares, after he persuaded them to invest in Sungro Minerals. Bahd held Sungro Minerals shares himself, which he sold at a profit. Under questioning, Bahd said nobody told him to sell the shares and that he did not inform anyone about it.

Bahd has admitted that these statements were false. He also admitted that he sold his shares, at specified prices on specific dates between June 23, 2009 and July 6, 2009, at the direction of a friend connected to Sungro Minerals. He reimbursed the seed shareholders for the purchase price of their shares.

Under the settlement agreement, Bahd agreed to pay BCSC \$75,000 and was banned for 25 years from BC's capital markets.

In the first quarter of fiscal 2013, two more individuals settled and a hearing was held.

Findings, hearings and decisions

Following a hearing, if a BCSC panel finds that allegations of misconduct are proven, the commissioners can make enforcement orders, impose financial penalties, or order the disgorgement of ill-gotten funds.

Thomas Joseph Sears and Royal Crown Ventures

In June 2011, a BCSC panel banned Thomas Joseph Sears from the province's capital markets for 20 years and fined him \$1.9 million. The panel found that he illegally distributed securities and employed boiler room techniques for trading securities.

The panel also found that Sears provided false information to investors by stating that

- Royal Crown was in possession of a large stockpile of iron ore ready to be shipped to market
- Royal Crown shares would be listed on a stock exchange or publicly traded within a short period of time
- Royal Crown investors would receive returns of 37.5% for year one, 227% for year two, and 417% for year three

Thomas Joseph Sears and his company, Royal Crown Ventures Group Ltd., raised \$1.9 million by distributing shares to 95 investors (including 56 BC residents) without being registered and without filing a prospectus. Sears benefited from his illegal activity—he took approximately \$500,000 of investors' money.

Michael Hu

A BCSC panel permanently banned Michael Kyaw Myint Hua Hu from the province's capital markets and fined him \$1.5 million in July 2011. The panel found that he engaged in illegal insider trading and made false and misleading statements to investigators.

The panel found that Hu, while a director and chairman of Maple Leaf Reforestation Inc., bought shares in the company while knowing undisclosed material information about a biodiesel project that Maple Leaf was negotiating in China.

The panel also found that Hu made false and misleading statements to BCSC staff when he denied knowing the individual who held the online brokerage account that Hu used to make the purchases.

Robert Lee Flickinger II

A BCSC panel permanently banned Robert Lee Flickinger II (a.k.a. Robert Reynolds), from the province's capital markets and fined him \$12 million in October 2011. It also ordered disgorgement of \$6 million. The panel found that he committed a \$6 million fraud when he sold securities in two BC companies to hundreds of investors.

Between February 2008 and March 2010, Flickinger sold limited partnership units in Lavaca III Limited Partnership and Gulf Coast Basin Limited Partnership to over 200 investors, promising them that their investment would be used for the acquisition and production of oil and gas properties. None of the money was used for that purpose.

Flickinger fabricated his story to investors and went to great lengths to conceal his fraud. He used an alias to hide his identity and history of regulatory infractions in the United States. He never disclosed to investors that he was the *de facto* officer and director of Lavaca and Gulf Coast and falsely stated that the two companies were managed by people who had no involvement in either. He created fictitious biographies for the identities he stole, and falsely claimed they had extensive experience and qualifications.

He also lied to investors about Lavaca and Gulf Coast's quarterly distributions, claiming that they were derived from the revenues generated by the companies when they were, in fact, being made with investors' funds.

Kegham Kevin Torudag

In March 2012, the BC Court of Appeal upheld a BCSC panel decision that Kegham Kevin Torudag, a Quebec resident, engaged in illegal insider trading.

At the BCSC hearing in 2009, Torudag admitted that he purchased shares of a TSX-V company hours before a mineral acquisition was announced. Based on the admission, the BCSC panel found that Torudag contravened BC's insider trading rules and that he did not hold a reasonable belief, and failed to take all reasonable steps necessary to establish that the material facts about Icon had been generally disclosed.

At the original hearing, Torudag claimed he was not subject to the BCSC's jurisdiction or the *Securities Act* because he was not in BC when he conducted the trades. The panel disagreed.

The Court of Appeal upheld the commission's view that because the BCSC regulates TSX-V, they can prosecute illegal insider trading on that exchange. In effect, anyone who trades on TSX-V, regardless of that person's location, is subject to the *Securities Act* in BC. Torudag is seeking to appeal this decision to the Supreme Court of Canada.

Frequently Used Terms

CSA *Canadian Securities Administrators*: a council of the securities regulators of Canada's 13 provinces and territories.

IIROC *Investment Industry Regulatory Organization of Canada*: the national self-regulatory organization that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada.

MFDA *Mutual Fund Dealers Association of Canada*: the national self-regulatory organization that regulates the distribution side of the Canadian mutual fund industry.

NI *National Instrument*: a document that sets out uniform rules to govern the national securities market, and deals with various regulatory matters (e.g. NI 43-101 National Instrument 43-101 *Standards of Disclosure for Mineral Projects*.)

OTC *Over-the-counter*: This refers to markets, or to derivatives or other securities not traded on a traditional exchange.

SRO *Self-Regulatory Organization*: an organization recognized by provincial securities regulators as having powers to establish and enforce industry regulations.

TSX *Toronto Stock Exchange*: a national senior equity exchange operated by TMX Group Inc.

TSX-V *TSX Venture Exchange*: a national junior equity exchange.

Resources For Investors

If you have questions regarding your financial adviser, investment firm, or an investment type, or if you would like to make a complaint, please call our Inquiries Group at 604.899.6854. Outside the greater Vancouver area: Phone: 1.800.373.6393
Email: inquiries@bcsc.bc.ca.

The BCSC's InvestRight website (www.investright.org) provides investors with the tools to research and assess potential investments and protect themselves from unsuitable or fraudulent investments.

The BCSC corporate website (www.bcsc.bc.ca) offers information to promote understanding of the financial system and to help investors make financial decisions. The information is not a substitute for financial or other professional advice. Always consult a professional adviser if you need financial advice.

For information about public companies and mutual funds, visit the SEDAR website: www.sedar.com.

For information about insider trading activity and viewing insider reports online, visit the SEDI website: www.sedi.ca.



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